

DM 1,500,000,000
TENNESSEE VALLEY AUTHORITY
6¾% Global Power Bonds 1996 Series C Due September 18, 2006

Interest Payable September 18

The 6¾% Global Power Bonds 1996 Series C Due September 18, 2006 (the "Bonds") of the Tennessee Valley Authority ("TVA") will not be subject to redemption prior to maturity. The Bonds will be issued in minimum denominations of DM 1,000 and integral multiples thereof.

Application has been made to list the Bonds on the New York Stock Exchange and application will be made to list the Bonds on the Frankfurt Stock Exchange (together with the New York Stock Exchange, the "Stock Exchanges").

The Bonds will be represented by one or more global securities (collectively, the "Global Bond") in fully registered form, which will be deposited with a custodian for The Depository Trust Company ("DTC") and registered in the name of a nominee of DTC for the accounts of its participants, including Deutscher Kassenverein AG, Frankfurt am Main ("DKV"). Financial institutions that are participants in DKV, including the Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel Bank"), and participants in Euroclear and Cedel Bank, will hold beneficial interests in the Bonds indirectly through DKV's account at DTC. Beneficial interests in the Bonds will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants. Except in limited circumstances, definitive Bonds will not be issued in exchange for beneficial interests in the Global Bond. See "Description of Bonds" — "Definitive Bonds" and "Clearance and Settlement".

Purchasers of beneficial interests in the Bonds are required to pay for the Bonds in immediately available Deutsche Mark funds. The Managers are prepared to arrange for the conversions of U.S. dollars into Deutsche Mark to enable investors in the United States to make such payment. See "Currency Conversions and Foreign Exchange Risks".

Beneficial owners of the Bonds that are not United States persons must certify that they are non-United States persons in order to receive payments on those Bonds free of United States withholding tax. See "United States Tax Matters" — "U.S. Alien Holders". TVA will not pay additional interest or other amounts in respect of any withholding or other tax that may be imposed by any jurisdiction on payments on the Bonds as a result of a change in law or otherwise.

TVA is a wholly owned corporate agency and instrumentality of the United States of America. Principal and interest will be payable solely from TVA's Net Power Proceeds (as defined herein).

The Bonds shall be governed by and construed in accordance with the laws of the State of New York, to the extent such law is not inconsistent with U.S. federal law.

THE BONDS WILL NOT BE OBLIGATIONS OF, NOR WILL PAYMENT OF THE PRINCIPAL THEREOF OR THE INTEREST THEREON BE GUARANTEED BY, THE UNITED STATES OF AMERICA. THE BONDS ARE NOT REQUIRED TO BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933. ACCORDINGLY, NO REGISTRATION STATEMENT HAS BEEN FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION. TVA IS NOT SUBJECT TO THE PERIODIC REPORTING REQUIREMENTS OF THE U.S. SECURITIES EXCHANGE ACT OF 1934.

	Price to Public (1)	Discount to Managers	Proceeds to TVA (2)
Per Bond	99.173%	0.325%	98.848%
Total	DM 1,487,595,000	DM 4,875,000	DM 1,482,720,000

(1) Plus accrued interest, if any, from September 18, 1996 to date of delivery.

(2) Before deducting expenses payable by TVA estimated at DM 745,000.

The Bonds offered by this Offering Circular are offered by the several Managers subject to prior sale, withdrawal, cancellation or modification of the offer without notice, to delivery to and acceptance by the Managers and to certain further conditions. It is expected that delivery of the Bonds will be made on or about September 18, 1996, against payment therefor in immediately available Deutsche Mark funds.

LEHMAN BROTHERS
BANKHAUS AG

NOMURA BANK (Deutschland) GmbH
Caisse des dépôts et consignations GmbH
CS First Boston Effectenbank Aktiengesellschaft
HSBC Trinkaus
Trinkaus & Burkhardt KGaA
Mitsui Trust International Limited
Salomon Brothers AG

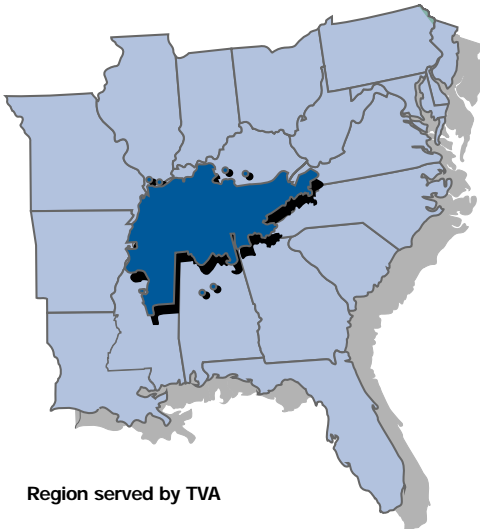
DEUTSCHE MORGAN GRENFELL
DEUTSCHE BANK AKTIENGESELLSCHAFT

Bayerische Landesbank Girozentrale
Commerzbank Aktiengesellschaft
Dresdner Bank-Kleinwort Benson
Dresdner Bank Aktiengesellschaft
Merrill Lynch Bank AG
Morgan Stanley Bank AG
Westdeutsche Landesbank Girozentrale

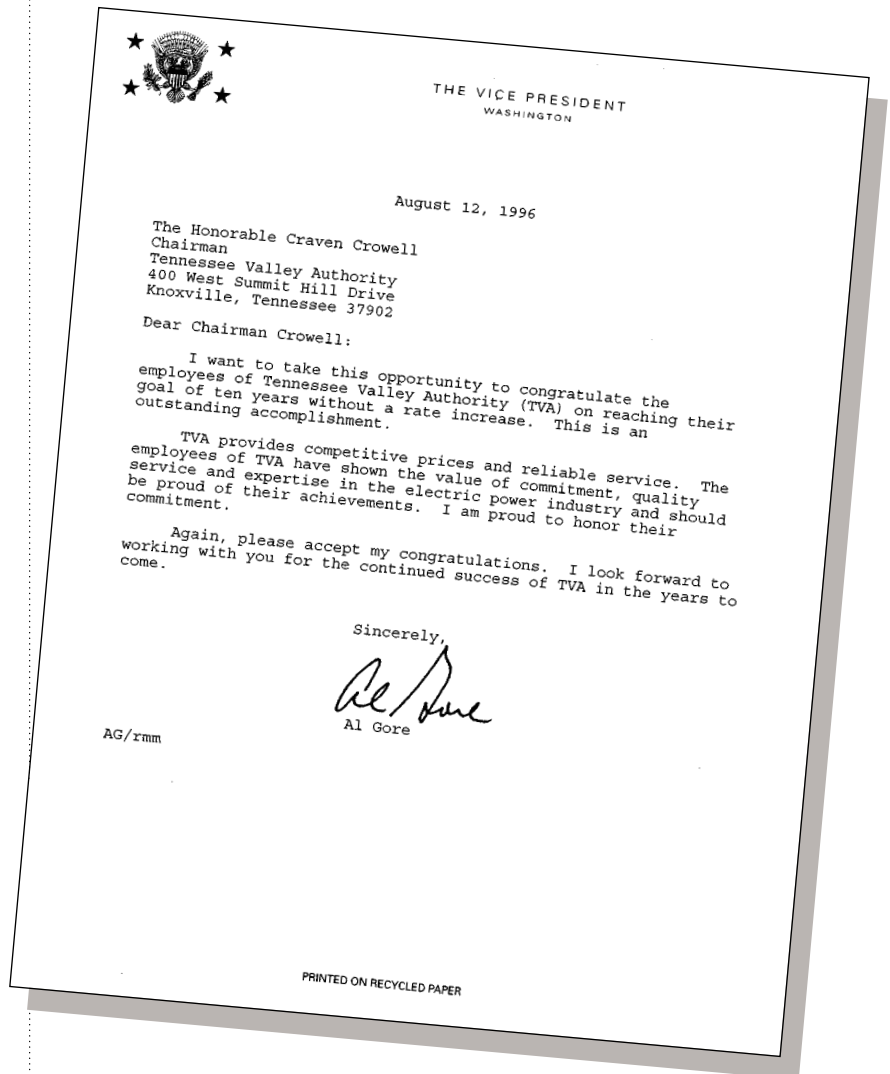
September 11, 1996

G L O B A L I M P A C T

TVA is recognized around the world as an expert in power production, flood control, navigation, and environmental quality. Many international visitors come to TVA each year to study its river operations and power program. TVA has recently hosted representatives from such countries as Australia, Brazil, Sri Lanka, China, Estonia, France, Germany, India, Japan, Malaysia, Poland, Russia, Sweden, and Tanzania.



TVA Chairman Craven Crowell announced in August that TVA would hold its power rates steady for a tenth consecutive year. Vice President Albert Gore Jr. congratulated TVA in a letter to Chairman Crowell.



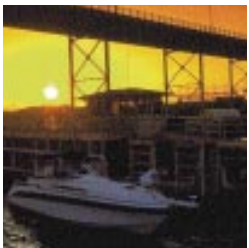
Vice President Al Gore (middle) and U.S. Secretary of Energy Hazel O'Leary congratulate TVA Chairman Craven Crowell at a ceremony in Washington, DC, recognizing TVA for its plan to reduce greenhouse gases. TVA was one of the first U.S. utilities to commit to reducing greenhouse gases.

B U I L D I N G A C O M P E T I T I V E F U T U R E

TVA is poised to be a major player in what is predicted to be a new, highly competitive electric utility market. With one of the largest generating and transmission systems in the United States, TVA's power operations form a vital part of the nation's energy infrastructure.



Like many corporations, TVA has in recent years taken steps to reduce expenses and at the same time improve its products and services. As a result, TVA has frozen its power rates for ten years in a row, extending the rate freeze through 1997. TVA's distributors already have among the lowest residential rates in the country.



TVA is a unique organization that is part business and part government. It operates an electric power system but also carries out programs mandated by the U.S. Congress, such as economic development, natural resource development, and flood control on the Tennessee River.

TVA's electric power operations are entirely self funding and are not supported by U.S. federal tax dollars. Revenues from TVA power sales were about \$5.4 billion in fiscal year 1995.

TVA's congressionally mandated programs are

funded through federal tax dollars. Congressional appropriations were about \$109 million in fiscal year 1996.

TVA applied six decades of water management expertise to the development of the first Olympic whitewater course on a natural river. Reported by competing athletes to be the best in the world, TVA's Ocoee River was the site of the 1996 Olympic Canoe/Kayak-Slalom competition.

TVA's programs involving power production, economic development, and resource development have for 63 years improved the quality of life in the Tennessee Valley. Together, these programs attract business and industry to the area, create jobs, and promote the wise use of natural resources. TVA touches the lives of millions of people in ways that demonstrate how we are so much more than just an electric utility.



TVA Vision

To be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs.

TVA Goals

Customer Driven

Be recognized by our customers as the best and easiest corporation with which to do business. Anticipate the needs of our customers and continue to offer competitive prices.

Employee Sensitive

Continually train employees to meet the challenges of the future; provide opportunities for employee career growth; attract and retain the most qualified employees who will take initiative and accept responsibility and accountability for exceeding customer expectations.

Environmentally Responsible

Be a recognized leader in environmental stewardship in the interests of our customers, our employees and the other publics TVA serves.

Growth Oriented

Aggressively and sensibly pursue growth and alliances that will add value to society, provide opportunities for our employees and ensure the future success of the corporation.



IN CONNECTION WITH THIS OFFERING, LEHMAN BROTHERS BANKHAUS AKTIENGESELLSCHAFT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE FRANKFURT STOCK EXCHANGE AND/OR THE NEW YORK STOCK EXCHANGE, IN AN OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Neither of the Stock Exchanges takes any responsibility for the correctness of any statements made or opinions expressed in this Offering Circular or any other document incorporated by reference herein or makes any representation as to its accuracy or completeness. Each of the Stock Exchanges expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of this Offering Circular or any other document incorporated by reference herein. Neither an admission to the official lists of nor quotation of or permission to deal in the Bonds on either of the Stock Exchanges is to be taken as an indication of the merits of TVA or the Bonds.

No dealer, salesperson or any other person has been authorized by TVA to give any information or to make any representations on behalf of TVA other than those contained in this Offering Circular, the current Information Statement (as hereinafter defined), or any supplement to any of the foregoing prepared by TVA for use in connection with the offer made by this Offering Circular and, if given or made, such information or representations must not be relied upon as having been authorized by TVA. Neither the delivery of this Offering Circular or the current Information Statement nor any sale of Bonds described herein shall under any circumstances create an implication that the information provided herein is correct at any time subsequent to its date. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy the Bonds described herein in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The distribution of this Offering Circular and the offering of the Bonds may, in certain jurisdictions, be restricted by law. Persons into whose possession this Offering Circular comes are required by TVA and the Managers (as hereinafter defined) to inform themselves of and observe all such restrictions.

This Offering Circular should be read in conjunction with TVA's current Information Statement, dated March 20, 1996 (the "current Information Statement"), which is attached hereto and incorporated herein. Any statement contained in the current Information Statement shall be deemed to be modified or superseded for all purposes of the current Information Statement and this Offering Circular to the extent that a statement contained in this Offering Circular modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified, to constitute a part of the current Information Statement. Additional copies of this Offering Circular and of the current Information Statement may be obtained (free of charge) upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902 U.S.A. Attention: Vice President and Treasurer, or by calling (423) 632-3366 in the United States. Copies of this Offering Circular and the current Information Statement will be on file and available for inspection during normal business hours at the office of the Global Agent (as hereinafter defined) at 450 West 33rd Street, New York, New York 10001 U.S.A. and at the office of the DM Paying Agent (as hereinafter defined) at Ulmenstrasse 30, 60325 Frankfurt am Main, Germany. The then current Information Statement and other information concerning TVA may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

This Offering Circular has been prepared by TVA solely for use in connection with the offering of the Bonds described herein and for purposes of listing the Bonds on the Stock Exchanges. TVA declares that it has taken reasonable care to ensure that the information contained in this Offering Circular is true and accurate in all material respects and that there are no material facts the omission of which would make misleading any statement herein, in light of the circumstances under which such statements are made. TVA accepts responsibility accordingly for the information contained in this Offering Circular.

In this Offering Circular and the current Information Statement, references to "U.S. dollars", "U.S. \$", "dollars" and "\$" are to United States dollars, and references to "DM" are to Deutsche Mark.

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SUMMARY OF OFFERING

The information below is qualified in its entirety by the detailed information appearing in TVA's current Information Statement (and any supplement thereto) and elsewhere in this Offering Circular. Capitalized terms used and not defined herein have the meanings defined in such Information Statement and elsewhere in this Offering Circular.

Issuer	TVA is a wholly owned corporate agency and instrumentality of the United States of America established by the Tennessee Valley Authority Act of 1933, as amended.
Securities Offered	DM 1,500,000,000 aggregate principal amount of 6¾% Global Power Bonds 1996 Series C Due September 18, 2006.
Interest	The Bonds will bear interest from September 18, 1996, at the annual rate set forth on the cover page hereof, payable annually in arrear on each September 18, commencing September 18, 1997.
Redemption	The Bonds will not be subject to redemption prior to maturity.
Global Agent	The Chase Manhattan Bank.
DM Paying Agent	The Chase Manhattan Bank (Frankfurt branch).
Listings	Application has been made to list the Bonds on the New York Stock Exchange and application will be made to list the Bonds on the Frankfurt Stock Exchange.
Use of Proceeds	The net proceeds received by TVA from the sale of the Bonds will be used to retire existing debt.
Source of Payment.....	The interest and principal on the Bonds are payable solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" in the current Information Statement.
Form and Denomination of Bonds ..	The Bonds will be represented by the Global Bond, which will not be exchangeable for definitive Bonds, except in the limited circumstances described herein. The Global Bond is issued in registered form in the name of Cede & Co. ("Cede"), as nominee of DTC. Beneficial interests in the Bonds will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC, including DKV. Financial institutions that are participants in DKV, including Euroclear and Cedel Bank, and participants in Euroclear and Cedel Bank, will hold beneficial interests in the Bonds indirectly through DKV's account at DTC. Investors may elect to hold interests in the Bonds through DTC or through any of DKV, Euroclear or Cedel Bank, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Beneficial interests in the Bonds will be maintained and transferred in minimum denominations of DM 1,000 and integral multiples thereof. See "Description of Bonds" — "Form and Denominations" and "Clearance and Settlement".
Clearance and Settlement	Beneficial interests in the Bonds may be held in accounts with institutions that are direct or indirect DTC participants, including DKV, Euroclear and Cedel Bank. Initial settlement for the Bonds

will be made in immediately available Deutsche Mark funds. However, the Managers are prepared to arrange for the conversion of U.S. dollars into Deutsche Mark to enable investors in the United States to make such payment. Secondary market sales of the Bonds for settlement within each clearing system will be settled in accordance with the rules and procedures established by the relevant system. Settlement within DKV of regular sales at the Frankfurt Stock Exchange will be made on a two business day basis. Sales to be settled within Euroclear or Cedel Bank and between Euroclear and Cedel Bank will normally settle on a three business day basis unless parties specify a different period (which may be as short as two business days). Sales to be settled within DTC will be settled using the procedures applicable to U.S. corporate debt obligations in DTC's Same-Day Funds Settlement System in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. In such case, separate payment arrangements outside DTC are required to be made between the DTC participants. Secondary market sales between a DTC participant (other than DKV) to a DKV account holder or a Euroclear or Cedel Bank participant will settle in accordance with the procedures described further herein. See "Clearance and Settlement" and "Currency Conversions and Foreign Exchange Risks".

Legality of Investment in the

United States

The following describes the legality in the United States of investment in TVA Evidences of Indebtedness. Potential investors are advised to consult with their own counsel with respect to the legality of investment in the Bonds. Generally, Evidences of Indebtedness:

- are acceptable as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America;
- are eligible as collateral for U.S. Treasury tax and loan accounts;
- are among those obligations which U.S. national banks may deal in, underwrite and purchase for their own accounts up to ten percent of unimpaired capital and surplus;
- are eligible as collateral for advances by U.S. Federal Reserve Banks to depository institutions;
- are legal investments for U.S. federal savings associations and U.S. federal savings banks to the extent specified in applicable regulations;
- are eligible as collateral for advances by U.S. Federal Home Loan Banks for which the Bonds are legal investments; and
- are legal investments for U.S. federal credit unions.

See "Legality of Investment in the United States".

No Acceleration Rights

The Bonds will not contain any provisions permitting acceleration of the maturity thereof on the occurrence of any default.

Taxation United States federal income tax generally will not be withheld from payments on Bonds that are beneficially owned by U.S. Alien Holders, provided that an appropriate United States Internal Revenue Service Form W-8 (or successor form) is provided. See “United States Tax Matters”. The Bonds are not subject to redemption by reason of the imposition of withholding or other tax by any jurisdiction, and TVA will have no obligation to pay additional interest or other amounts in respect of any such tax that may be imposed on payments on the Bonds as a result of a change in law or otherwise, including any withholding tax that may be imposed as a result of a failure to provide an applicable United States Internal Revenue Service form.

For further discussion of United States tax consequences with respect to the purchase, ownership or disposition of the Bonds, see “United States Tax Matters”.

For discussion of German tax matters relating to the Bonds, see “German Tax Matters”.

CUSIP Number 880591 CM2
Common Code 6953832
ISIN US880591 CM28
WKN 134180

TENNESSEE VALLEY AUTHORITY

The Tennessee Valley Authority is the largest public electric power system in the United States of America, producing more than 139 billion kilowatt-hours of electricity in fiscal year 1995. The TVA system is the supplier of electric power to a region containing 7.3 million people located in parts of seven states: Tennessee, Kentucky, Mississippi, Alabama, Georgia, North Carolina and Virginia. The principal executive office of TVA is located at 400 West Summit Hill Drive, Knoxville, Tennessee 37902 U.S.A.

TVA is a wholly owned corporate agency and instrumentality of the United States established pursuant to the Tennessee Valley Authority Act of 1933, as amended (the "Act"), primarily to develop and manage the resources of the Tennessee Valley region. The programs at TVA consist of power and nonpower programs. TVA's electric system operations are required to be self-supporting from power system revenues, which were about \$5.4 billion in fiscal year 1995. No tax dollars go into the operation of TVA's power program. The Act authorizes TVA to issue Evidences of Indebtedness (as such term is defined under "Description of Bonds") that may only be used to finance its power program. TVA's nonpower activities include responsibilities associated with operation of the Tennessee River system, land management, economic development and the environment. Congress has provided \$109 million for TVA's nonpower programs in fiscal year 1996.

TVA's power facilities (including corporate offices) are located in the United States in the states of Tennessee, Kentucky, Mississippi, Alabama, Georgia, North Carolina and Virginia. The real property interests associated with these facilities have been acquired in the name of the United States of America and entrusted to TVA, as agent of the United States. While all power generation facilities are owned, some corporate office facilities are held under capital lease arrangements. In general, power system personal property relating to TVA's power facilities is owned by TVA.

For 63 years, TVA has been associated with bringing prosperity to a significant region of the United States. Its dams have averted an estimated \$4 billion in flood damage, its power program brought electricity to a large undeveloped area of the country and its economic development program has contributed to a vast increase in the number of jobs in the Valley.

TVA's mission has evolved over the years as the needs of its customers have changed. The stated Vision of TVA is "to be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs". Operational excellence is the cornerstone of a successful future for TVA as it enters an era of deregulation. TVA reached an all-time peak demand of 25,995 megawatts on February 5, 1996. TVA achieved a nuclear generating capacity factor of 80 percent in 1995, exceeding the nuclear industry average of 77.6 percent during the same period.

In looking to the future, TVA has completed an integrated resource plan built on extensive public input, resulting in a 25-year plan to meet future energy needs. TVA is conducting a Strategic Planning Process to define how it will meet the challenges of a deregulated electric utility industry, including considering alliances with the private sector, both in the United States and internationally. TVA is committed to competing in a deregulated environment and will use its flexibility to respond to market changes while fulfilling its role of being an energy leader in price, service and environmental stewardship.

USE OF PROCEEDS

The net proceeds received by TVA from the sale of the Bonds will be used to retire existing debt.

RECENT DEVELOPMENTS

Financial Results

The condensed financial statements for TVA's power program for the fiscal years ended September 30, 1995 and 1994 have been derived from TVA's audited financial statements. The condensed financial statements for TVA's power program for the nine months ended June 30, 1996 and 1995 are unaudited but in the opinion of management of TVA include all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of results for such periods. The following information should be read in conjunction with the audited financial statements and notes thereto presented in the current Information Statement. Results for the nine months ended June 30, 1996 are not necessarily indicative of results for fiscal year 1996.

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM
CONDENSED BALANCE SHEETS
At June 30, 1996 and September 30, 1995**

	June 30, 1996	September 30, 1995
	(Millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 588	\$ 52
Accounts receivable.....	658	681
Inventories, at average cost	398	355
Total current assets	1,644	1,088
PROPERTY, PLANT AND EQUIPMENT		
Completed plant	27,479	18,412
Less accumulated depreciation	(6,486)	(6,061)
Net completed plant	20,993	12,351
Construction in progress	1,126	9,556
Deferred nuclear generating units	6,288	6,227
Nuclear fuel and capital lease assets.....	1,125	1,167
Total property, plant and equipment	29,532	29,301
INVESTMENT FUNDS	399	260
DEFERRED CHARGES AND OTHER ASSETS	2,640	2,644
Total assets.....	\$34,215	\$33,293
LIABILITIES AND PROPRIETARY CAPITAL		
CURRENT LIABILITIES		
Accounts payable.....	\$ 490	\$ 694
Accrued liabilities	134	130
Accrued interest.....	432	455
Short-term debt	3,153	2,831
Current maturities of long-term debt	2,403	1,306
Total current liabilities	6,612	5,416
OTHER LIABILITIES	1,419	1,264
LONG-TERM DEBT		
Senior Debt: Public Bonds	18,203	19,153
Federal Financing Bank	3,200	3,200
Subordinated Debt: Public Bonds	1,100	600
Unamortized Discount	(386)	(370)
Total long-term debt	22,117	22,583
PROPRIETARY CAPITAL		
Appropriation investment	613	628
Retained earnings reinvested in power program.....	3,454	3,402
Total proprietary capital	4,067	4,030
Total liabilities and proprietary capital	\$34,215	\$33,293

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM**

CONDENSED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

**For the Nine Months Ended June 30, 1996 and 1995
and for the Years Ended September 30, 1995 and 1994**

	Nine Months Ended June 30,		Fiscal Year Ended September 30,	
	1996	1995(1)	1995	1994
	(Millions)			
OPERATING REVENUES				
Sales of electric energy				
Municipalities and cooperatives	\$3,662	\$3,296	\$4,654	\$4,582
Industries directly served	338	338	460	452
Federal Agencies	121	135	179	296
Other	66	63	82	71
Total operating revenues	<u>4,187</u>	<u>3,832</u>	<u>5,375</u>	<u>5,401</u>
OPERATING EXPENSES				
Fuel and purchased power, net	943	1,013	1,443	1,493
Operating and maintenance	890	745	1,050	1,081
Depreciation and amortization	611	502	703	639
Tax-equivalent payments	190	187	252	248
Total operating expenses	<u>2,634</u>	<u>2,447</u>	<u>3,448</u>	<u>3,461</u>
OPERATING INCOME	<u>1,553</u>	<u>1,385</u>	<u>1,927</u>	<u>1,940</u>
OTHER INCOME AND EXPENSE, NET(2)	<u>(1)</u>	<u>(75)</u>	<u>(91)</u>	<u>(59)</u>
Income before interest charges	<u>1,552</u>	<u>1,310</u>	<u>1,836</u>	<u>1,881</u>
INTEREST CHARGES				
Interest expense	1,562	1,509	2,024	1,853
Allowance for funds used during construction(3)	(94)	(155)	(198)	(123)
Net interest charges	<u>1,468</u>	<u>1,354</u>	<u>1,826</u>	<u>1,730</u>
NET INCOME (LOSS)	<u>84</u>	<u>(44)</u>	<u>10</u>	<u>151</u>
Return on appropriation investment	32	31	42	42
Increase (decrease) in retained earnings	52	(75)	(32)	109
Retained earnings reinvested at beginning of period	<u>3,402</u>	<u>3,434</u>	<u>3,434</u>	<u>3,325</u>
Retained earnings reinvested at end of period	<u>\$3,454</u>	<u>\$3,359</u>	<u>\$3,402</u>	<u>\$3,434</u>

- (1) The nine months ended June 30, 1995 is reclassified to conform to fiscal 1995 and 1996 presentations.
- (2) In August 1995, TVA determined that the cost of the voluntary early-out package offered to all TVA employees in the first quarter of 1995 was \$136 million, rather than the \$88 million charge previously reported. Accordingly, these Condensed Statements of Operations and Retained Earnings and the Condensed Statements of Cash Flows as of and for the nine months ended June 30, 1995 have been restated to reflect the revised cost. The effect of the correction was to increase the charge included in Other Income and Expense, Net and decrease Net Income by \$48 million.
- (3) Effective October 1, 1994 TVA changed its method of determining the interest rate used to calculate the allowance for funds used during construction. The change was made to more accurately reflect the nature of the indebtedness issued to fund construction. The effect of the change for fiscal 1995 was to increase the amount of interest capitalized by approximately \$56 million.

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM**

**CONDENSED STATEMENTS OF CASH FLOWS
For the Nine Months Ended June 30, 1996 and 1995
and for the Years Ended September 30, 1995 and 1994**

	Nine Months Ended June 30,		Fiscal Year Ended September 30,	
	1996	1995(1)	1995	1994
	(Millions)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss) (2)	\$ 84	\$ (44)	\$ 10	\$ 151
Items not requiring cash	760	468	701	909
Other changes, net(2)	(241)	7	91	84
Net cash provided by operating activities	<u>603</u>	<u>431</u>	<u>802</u>	<u>1,144</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Construction expenditures	(840)	(1,359)	(1,868)	(2,015)
Allowance for funds used during construction	94	155	198	123
Other, net	(201)	(113)	(201)	(36)
Net cash used in investing activities	<u>(947)</u>	<u>(1,317)</u>	<u>(1,871)</u>	<u>(1,928)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings, net	927	1,089	1,181	735
Other	(47)	(47)	(62)	(62)
Net cash provided by financing activities	<u>880</u>	<u>1,042</u>	<u>1,119</u>	<u>673</u>
Net change in cash and cash equivalents	<u>\$ 536</u>	<u>\$ 156</u>	<u>\$ 50</u>	<u>\$ (111)</u>

(1) The nine months ended June 30, 1995 is reclassified to conform to fiscal 1995 and 1996 presentations.

(2) See Note 2 to Condensed Statements of Operations and Retained Earnings.

Results of Operations for the Nine Months Ended June 30, 1996

Net power income of \$84 million for the nine months ended June 30, 1996, represented an increase of \$128 million from a \$44 million loss in the same period ended June 30, 1995. Electric sales for the nine months ended June 30, 1996, increased 7 percent over the same period ended June 30, 1995, from 96.6 billion kilowatt-hours to 103.1 billion kilowatt-hours. Operating revenues for the nine months ended June 30, 1996, increased \$355 million from \$3,832 million to \$4,187 million when compared to the same period ended June 30, 1995. The increase in electric sales and in operating revenues is primarily due to system load growth and more extreme winter weather conditions as compared to last year.

Operating expenses of \$2,634 million for the nine months ended June 30, 1996 represented an increase of \$187 million from \$2,447 million in the same period ended June 30, 1995. This increase results from higher operating and maintenance costs associated with sales growth and from additional depreciation expense primarily attributable to the commercial operation of Watts Bar Unit 1 and restart of Browns Ferry Unit 3 in fiscal 1996, partially offset by a decrease in fuel and net purchased power cost. Other income and deductions include items not directly associated with the production of energy. Net other expenses for the nine months ended June 30, 1996, and 1995 were \$1 million and \$75 million, respectively. Other income and expenses, net, for the nine months ended June 30, 1995 consisted primarily of a one-time \$136 million charge for the voluntary early-out package offered employees, offset by the recognition of a \$61 million gain resulting from a sale of investments. Net interest expense increased \$114 million from \$1,354 million in the nine months ended June 30, 1995 to \$1,468 million for the same period ended June 30, 1996. Interest on indebtedness increased due to additional borrowings for TVA's power program and a reduction in the allowance for funds used during construction.

Liquidity and Capital Resources

In November 1995, TVA issued in the public market \$1,000 million in Global Power Bonds (due 2000) and \$600 million in Global Power Bonds (due 2025) to retire existing debt.

In April 1996, TVA issued in the public market \$600 million in Power Bonds (due 2036) and \$500 million in Quarterly Income Debt Securities (due 2046) to retire existing debt.

In July 1996, TVA issued in the public market \$400 million in Power Bonds (due 2036) to retire existing debt.

In August 1996, TVA Chairman Craven Crowell announced that TVA does not plan to increase its debt level during fiscal year 1997.

In August 1996, TVA issued in the public market \$300 million in Power Bonds (due 2001) to retire existing debt.

For the two months ended August 31, 1996, TVA increased short-term debt owed to the U.S. Treasury by \$116 million. During the eleven months ended August 31, 1996, TVA's total long-term debt, including current maturities, increased by \$1,017 million, principally to finance capital expenditures for the power program. For the two month period ended August 31, 1996, operating income and net income decreased by \$101 million and \$136 million, respectively, as compared to the comparable two month period in 1995. These decreases were due primarily to a reduction in revenues resulting from milder weather conditions during the 1996 summer period as compared to the 1995 period, coupled with an increase in operating expenses for the 1996 period over the 1995 period. The increase in operating expenses was attributable primarily to the operation of Watts Bar Unit 1 and Browns Ferry Unit 3, which were brought into commercial operation and restarted, respectively, during fiscal year 1996.

In connection with the issuance of the Bonds, TVA has entered into a swap agreement to fix TVA's interest and principal payments in U.S. dollars based on the foreign currency exchange rate at the time of the issuance of the Bonds. In the event of nonperformance by the counterparty to the swap agreement, TVA would be exposed to the risk of currency rate fluctuation between U.S. dollars and Deutsche Mark.

Capital Expenditures

TVA's capital expenditures for the nine months ended June 30, 1996 totaled \$840 million, all of which were expended in the United States. Such expenditures primarily related to investments in TVA's generating and transmission assets. Of such amount, \$344 million were nuclear expenditures, including \$129 million primarily related to activities required to bring Watts Bar Unit 1 into commercial operation and \$111 million primarily related to activities required to restart Browns Ferry Unit 3. TVA power funds were used for these expenditures.

Other Matters

On August 12, 1996, TVA Chairman Craven Crowell announced that TVA will achieve its goal of a full decade with no general increase in the price of electricity. On October 1, 1996, TVA will begin the tenth year of stable electricity prices.

On May 27, 1996, Watts Bar Nuclear Plant Unit 1 commenced full power commercial operation. See "Nuclear Power Program" — "Watts Bar" in the current Information Statement. Watts Bar Unit 1 joined TVA's four other operating nuclear units in commercial operation in time to help with summer power demand.

TVA no longer has any nuclear plants on the Nuclear Regulatory Commission's ("NRC") watch list. The NRC has removed Browns Ferry Unit 3, which returned to service last November, and Browns Ferry Unit 1, which is shut down with no immediate plans for restart, from the list of nuclear facilities warranting increased regulatory attention. Browns Ferry Unit 3 has performed well since returning to service last fall, operating continuously through the winter and generating more than 4.5 billion kilowatt-hours (gross

generation) of electricity. Browns Ferry Unit 2 operated throughout 1995 at more than 98 percent of its capacity, well above the industry averages.

In June 1996, TVA added \$123 million to its decommissioning fund and placed the entire decommissioning fund valued at \$396.2 million into investment trust funds with three banks to ensure future funding for decommissioning its nuclear generating units. See “Nuclear Power Program” — “Decommissioning” in the current Information Statement.

On June 3, 1996, the United States District Court for the Southern District of Mississippi issued a ruling in TVA’s favor in the litigation brought against it by 4-County Electric Power Association. See “Competition” in the current Information Statement. The court rejected the plaintiff’s claims that it was entitled to participate in TVA’s Enhanced Growth Credit Program without first committing to a long-term power purchase relationship with TVA. The court also rejected all of the plaintiff’s challenges to the validity of its power contract with TVA. 4-County subsequently renewed its long-term relationship with TVA.

TVA recently began offering power contract term arrangements to distributors under which a 15-year notice is required to terminate the contract. On each annual anniversary of the contract (beginning with the fifth anniversary), one additional year is automatically added to the term. As part of the arrangement, TVA agrees that these term arrangements are deemed to provide for adequate recovery by TVA of any investment in generation, transformation, or transmission facilities for service to the distributor. To date five distributors have opted for these arrangements. See “Rates, Customers and Market” — “Municipal and Cooperative Distributors” in the current Information Statement.

In the lawsuit filed by the subsidiaries of The Southern Company (see “Power System” in the current Information Statement), the United States District Court for the Northern District of Alabama ruled on August 28, 1996 that LG&E Power Marketing, Inc. (“LPM”) is not, under the Act, an entity with which TVA may enter into interchange arrangements. Although the court indicated that it disagreed with TVA’s position that the Act’s territorial limitations did not apply to transactions under TVA’s interchange arrangements with other organizations, the court stated specifically that it was not ruling on that issue. Accordingly, the court’s action does not affect TVA’s existing interchange arrangements with entities other than LPM. The decision will become effective 60 days after judgment is entered, unless further stayed. TVA is reviewing the court’s opinion and has not yet determined what further action should be taken. TVA believes that a prohibition against transactions with LPM would not have a material adverse effect on the financial condition or results of operation of TVA.

A bill has been introduced in the House of Representatives that would require retail electric service choice to be instituted for all retail electric customers in the United States by December 15, 2000. The bill would generally abolish exclusive service territories and allow any electric utility (or other provider of electricity) to serve another electric utility’s present customers, including those of TVA and the municipal and cooperative distributors served by TVA. However, as now worded, the bill would not remove the constraints on the area in which TVA or the distributors may be a source of electric power supply. Congressional enactment of retail choice legislation is unlikely during the remainder of calendar year 1996, and its prospects during the next Congress are uncertain. TVA anticipates that in the event any retail choice legislation is enacted, such legislation would enable TVA and the distributors of TVA power to take part, reciprocally, in retail competition outside the area for which they can now be a source of electric power supply. See “The Area Supplied by TVA” and “Competition” in the current Information Statement.

On April 24, 1996, the Federal Energy Regulatory Commission (the “Commission”) issued Order No. 888 (the “Order”) which was the culmination of its most recent investigation into the restructuring of the wholesale electric industry. The Order requires electric utilities subject to the Commission’s general jurisdiction under the Federal Power Act to offer third parties wholesale transmission services under a single pro forma tariff set out therein. While the Order is not addressed to non-jurisdictional entities, such as TVA, the Order does require that non-jurisdictional entities wishing to seek transmission service from another electric utility under an open access tariff provide reciprocal access to their own facilities. TVA has previously made and continues to make wholesale transmission service available to others under Transmission Service

Guidelines adopted by the TVA Board in 1994 for wheeling across the TVA system consistent with the Energy Policy Act of 1992. See “Competition” in the current Information Statement.

A bill was recently introduced in the House of Representatives that, among other things, would require the sale of all federally-owned hydro electric generation and transmission facilities used to generate and transmit electric power sold by the Federal Power Marketing Administrations and the sale of all TVA’s hydro-electric generation facilities by September 30, 1999. In TVA’s opinion, Congressional enactment is unlikely.

Director Hayes’ initial term as a member of the TVA Board expired on May 18, 1996. Subsequently he received a recess appointment to the Board, which continues through the 1997 session of Congress. He has been nominated by the President to fill a full term (until 2005). See “Management” in the current Information Statement.

During the fourth quarter of fiscal year 1996, TVA announced a reduction in force of approximately 480 employees, effective September 30, 1996. TVA estimates the costs of this reduction in force to be approximately \$9 million, which will be recorded in the fourth quarter of fiscal year 1996.

As TVA continues to streamline its operations, additional positions are being eliminated. Most employees affected by these job eliminations are being offered an opportunity to resign early with a lump sum payment of up to one year’s salary and applicable severance as part of a separation agreement in lieu of a likely reduction in force during fiscal year 1997. The costs associated with these separation agreements, which are in addition to the \$9 million described above, could range from \$10 million to \$35 million, which would be recorded as an additional charge in the fourth quarter of fiscal year 1996.

DESCRIPTION OF BONDS

General

The Bonds are to be issued pursuant to authority vested in TVA by the Act and pursuant to the Basic Tennessee Valley Authority Power Bond Resolution adopted on October 6, 1960, as amended on September 28, 1976, October 17, 1989 and March 25, 1992 (the “Basic Resolution”), and the Supplemental Resolution authorizing the Bonds adopted on September 5, 1996 (the “Supplemental Resolution” and together with the Basic Resolution, the “Resolutions”). TVA will enter into a Global Agency Agreement to be dated as of September 18, 1996 (the “Global Agency Agreement”) with The Chase Manhattan Bank, as global agent (including its successors, the “Global Agent”) and, acting through its Frankfurt branch, as paying agent (including its successors, the “DM Paying Agent”). The U.S. Secretary of the Treasury has approved the time of issuance of, and the maximum rate of interest to be borne by, the Bonds in compliance with Section 15d(c) of the Act. The Bonds represent obligations of TVA payable solely from TVA’s Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America.

The Act authorizes TVA to issue and sell bonds, notes and other evidences of indebtedness (hereinafter collectively referred to as “Evidences of Indebtedness”) to assist in financing its power program and to refund such Evidences of Indebtedness. Evidences of Indebtedness issued pursuant to Section 2.2 of the Basic Resolution designated as Tennessee Valley Authority Power Bonds are herein referred to as “Power Bonds”. The aggregate amount of Evidences of Indebtedness at any one time outstanding is limited to \$30 billion. As of June 30, 1996, TVA had approximately \$28.1 billion of Evidences of Indebtedness outstanding. There are \$1.4 billion of Power Bonds that are being redeemed under in-substance defeasance arrangements and are not considered by TVA to be debt that is subject to the \$30 billion limit. For information with respect to TVA’s Power Bonds and the Basic Resolution, see “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” — “Issuance of Additional Bonds and Other Evidences of Indebtedness” in the current Information Statement.

The summaries herein of certain provisions of the Act, the Resolutions and the Global Agency Agreement do not purport to be complete and are qualified in their entirety by reference to all the provisions of the Act, the Resolutions and the Global Agency Agreement, copies of which may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902

U.S.A., Attention: Vice President and Treasurer, or by calling (423) 632-3366 in the United States. Copies of such documents will be on file and available for inspection during normal business hours at the office of the Global Agent at 450 West 33rd Street, New York, New York 10001 U.S.A. and at the office of the DM Paying Agent at Ulmenstrasse 30, 60325 Frankfurt am Main, Germany.

The Bonds will be Power Bonds as defined above and will be payable as to both principal and interest solely from TVA's Net Power Proceeds, which are defined as the remainder of TVA's Gross Power Revenues (as defined in the Basic Resolution) after deducting the costs of operating, maintaining and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and payments to states and counties in lieu of taxes, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds of the sale or other disposition of any Power Facility (as defined in the Basic Resolution) or interest therein. Net Power Proceeds for fiscal years 1995, 1994 and 1993 were \$2.6 billion, \$2.6 billion and \$2.5 billion, respectively. The Act also requires TVA to make certain payments to the U.S. Treasury each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment (as defined in the Basic Resolution). See "Certain Provisions of the Tennessee Valley Authority Act" — "Payments to the Treasury" in the current Information Statement.

The Bonds rank equally as to the application of Net Power Proceeds with all other Power Bonds. As to the application of Net Power Proceeds, Power Bonds presently rank senior to other Evidences of Indebtedness as to principal and on a parity with or senior to other Evidences of Indebtedness as to interest. At some future date prior to maturity of the Bonds, Evidences of Indebtedness other than Power Bonds may also rank on parity with Bonds as to principal. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Amendments to the Basic Resolution to Become Effective in the Future" in the current Information Statement. For a further discussion of the application of Net Power Proceeds, see "Certain Provisions of the Tennessee Valley Authority Act" and "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Application of Net Power Proceeds" in the current Information Statement.

There is no limit on other indebtedness or securities which may be issued by TVA and no financial or similar restrictions on TVA, except as provided under the Act, the Basic Resolution and the Supplemental Resolution. TVA issues its Discount Notes pursuant to Section 15d of the Act and in accordance with Section 2.5 of the Basic Resolution. TVA may also issue Other Indebtedness in addition to Power Bonds and Discount Notes. Other Indebtedness, such as TVA's Quarterly Income Debt Securities, are issued pursuant to Section 15d of the Act and under appropriate authorizing resolutions. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" in the current Information Statement.

The Bonds, which are to be issued in an aggregate principal amount of DM 1,500,000,000, will bear interest from September 18, 1996 at the rate set forth on the cover page of this Offering Circular and will mature on September 18, 2006 (the "Maturity Date"). Interest on the Bonds will be payable annually in arrear on September 18 of each year (each an "Interest Payment Date"), commencing September 18, 1997, to the persons in whose names the Bonds are registered at the close of business on the day fifteen days (the "Record Date") prior to such Interest Payment Dates, whether or not such day is a Business Day. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the person in whose name the Bonds are registered on such Record Date and may be paid to the person in whose name the Bonds are registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by TVA or be paid at any time in any other lawful manner not inconsistent with the requirements of the Stock Exchanges. The Bonds will not be subject to redemption prior to maturity and are not entitled to the benefit of any sinking fund. The Bonds will be repaid at 100 percent of the principal amount thereof, together with interest accrued and unpaid thereon, on the Maturity Date.

In any case in which an Interest Payment Date or the Maturity Date is not a Business Day, payment of principal or interest, as the case may be, shall be made on the next succeeding Business Day with the same force and effect as if made on such Interest Payment Date or the Maturity Date. The term "Business Day" shall mean any day other than a Saturday or Sunday or a day on which banking institutions in New York City or Frankfurt am Main are authorized or required by law or executive order to be closed.

Certain certification requirements are applicable to payments of interest on the Bonds. The registered holder or other persons otherwise required to withhold tax may require the beneficial owner of a Bond, as a condition of payment of amounts due with respect to such Bond, to present on a timely basis an appropriate United States Internal Revenue Service Form W-8 (or successor form) or other appropriate form to enable such person to determine its duties and liabilities with respect to any taxes or other charges that may be required to be deducted or withheld under U.S. law or any reporting or other requirements thereunder. See “United States Tax Matters”. In the event that any withholding or other tax or information reporting requirements should be imposed by any jurisdiction, TVA has no obligation to pay additional interest or other amounts as a consequence thereof and will not redeem the Bonds prior to their stated maturity.

Form and Denominations

The Bonds will be represented by one or more global securities (collectively, the “Global Bond”) registered in the name of Cede, as nominee of DTC. The Global Bond will be held by the Global Agent, at its New York branch, as custodian for DTC. The Bonds will be issued only in fully registered form, without coupons, and, in the case of any definitive Bonds issued in exchange for the Global Bond, as provided below, in denominations of DM 1,000 and integral multiples thereof.

Except as set forth below, the Global Bond may be transferred, in whole and not in part, only to DTC, another nominee of DTC or a successor of DTC or its nominee.

Beneficial interests in the Bonds will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Such beneficial interests will be in denominations of DM 1,000 and integral multiples thereof. Investors may hold beneficial interests in the Bonds through DTC, DKV, Euroclear or Cede Bank, if they are participants in such systems, or indirectly through organizations that are participants in such systems. DKV holds beneficial interests in the Bonds on behalf of its account holders through DKV’s account at DTC. Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear, and Cede Bank are participants in DKV, and thereby hold beneficial interests in the Bonds on behalf of their own participants, through their respective accounts at DKV.

Transfers of beneficial interests in the Bonds between DTC participants shall be effected in accordance with the procedures established for this purpose by DTC. Transfers of beneficial interests in the Bonds between DKV account holders shall be effected in accordance with the procedures established for this purpose by DKV. Transfers of beneficial interests in the Bonds between Euroclear participants, between Cede Bank participants and between Euroclear participants on the one hand and Cede Bank participants on the other hand shall be effected in accordance with procedures established for these purposes by Euroclear and Cede Bank. Transfers of beneficial interests in the Bonds between Euroclear or Cede Bank participants on the one hand and other DKV account holders on the other hand shall be effected through DKV in accordance with the procedures established for this purpose. See “Clearance and Settlement”.

DTC may grant proxies or otherwise authorize DTC participants (or persons holding beneficial interests in the Bonds through such DTC participants) to exercise any rights of a holder or take any other actions that a holder is entitled to take under the Resolutions, the Global Agency Agreement or the Bonds. Under its usual procedures, DTC would mail an omnibus proxy to TVA assigning Cede’s consenting or voting rights to those DTC participants to whose accounts the Bonds are credited on a record date as soon as possible after such record date.

Persons who are not DTC participants may beneficially own Bonds held by DTC only through direct or indirect participants in DTC (including DKV, Euroclear and Cede Bank). So long as Cede, as the nominee of DTC, is the registered owner of the Global Bond, Cede for all purposes will be considered the sole holder of the Bonds under the Resolutions, the Global Agency Agreement and the Bonds. Except as provided below, owners of beneficial interests in the Bonds represented by the Global Bond will not be entitled to have Bonds registered in their names, will not receive or be entitled to receive physical delivery of Bonds in definitive form and will not be considered to be the holders thereof under the Resolutions, the Global Agency Agreement or the Bonds. Accordingly, any person owning a beneficial interest in the Bonds represented by the Global Bond

must rely on the procedures of DTC and, to the extent relevant, DKV, Euroclear or Cede Bank, and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder of Bonds. TVA understands that, under existing industry practice, in the event that an owner of a beneficial interest in the Bonds represented by the Global Bond desires to take any action that Cede, as the holder of such Global Bond, is entitled to take, Cede would authorize the participants to take such action, and the participants would authorize beneficial owners owning through such participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Payment

Payment of principal of and interest on the Global Bond will be made to Cede, the nominee for DTC, as the registered holder, in Deutsche Mark. As described below, investors holding beneficial interests in the Bonds through DKV, Euroclear or Cede Bank will be paid in Deutsche Mark.

A person holding interests in the Global Bond directly through DTC (a “DTC Direct Participant”) shall, other than in the case of DKV, receive payments of principal and interest in respect of the Bonds in U.S. dollars, unless such DTC Direct Participant elects to receive payments in Deutsche Mark. In the event that a DTC Direct Participant (other than DKV) shall not have made such election in respect of any payment of principal or interest, the aggregate amount designated for all such DTC Direct Participants in respect of such payment (the “DM Conversion Amount”) shall be converted (or caused to be converted) by the DM Paying Agent into U.S. dollars and paid by wire transfer of same-day funds to the registered holder of the Global Bond for payment through DTC’s settlement system to the relevant DTC participants. DKV (in its capacity as a DTC Direct Participant and as a participant in DTC) and any persons who hold beneficial interests in the Bonds directly or indirectly through DKV (including Euroclear and Cede Bank and their respective participants) (i) shall receive all payments in Deutsche Mark without making any such election and (ii) may not elect to receive payments in other than Deutsche Mark. All costs of any conversion into U.S. dollars will be borne by the relevant holders of beneficial interests receiving such payments by deduction from such payments. Any such conversion shall be based on The Chase Manhattan Bank’s bid quotation, at or prior to 11:00 a.m., New York time, on the second Business Day preceding the relevant payment date, for the purchase by the DM Paying Agent of the DM Conversion Amount of U.S. dollars for settlement on such payment date. If such bid quotation is not available for any reason, the DM Paying Agent shall endeavor to obtain a bid quotation from a leading foreign exchange bank in New York City selected by the DM Paying Agent for such purpose. If no bid quotation from a leading foreign exchange bank is available, payment of the DM Conversion Amount will be made in Deutsche Mark to the account or accounts specified by DTC to the DM Paying Agent.

In addition to acting in its capacities as DM Paying Agent and Global Agent, The Chase Manhattan Bank may act as a foreign exchange dealer for purposes of converting Deutsche Mark to U.S. dollars as described in the paragraph above and, when acting as a foreign exchange dealer, The Chase Manhattan Bank will derive profits from such activities in addition to the fees earned by it for its services as DM Paying Agent and Global Agent. Each such conversion will be made on such terms, conditions and charges not inconsistent with the terms of the Bonds as The Chase Manhattan Bank may from time to time establish in accordance with its regular foreign exchange practices, and subject to applicable U.S. law and regulations.

A DTC Direct Participant (other than DKV) may elect to receive payment of the principal of, or interest with respect to, the Bonds in Deutsche Mark by causing DTC to notify the Global Agent and the DM Paying Agent by the time specified below of (i) such DTC Direct Participant’s election to receive all or a portion of such payment in Deutsche Mark and (ii) wire transfer instructions to a Deutsche Mark account in the Federal Republic of Germany. Such election in respect of any payment must be made by the DTC Direct Participant at the time and in the manner required by the DTC procedures applicable from time to time and shall, in accordance with such procedures, be irrevocable and shall relate only to such payment. See “Currency Conversion and Foreign Exchange Risks”. DTC notifications of such election, wire transfer instructions and the amount payable in Deutsche Mark must be received by the Global Agent and the DM Paying Agent prior to 5:00 p.m. New York time on the fifth New York Business Day (as defined herein) following the relevant Record Date in the case of interest, and prior to 5:00 p.m. New York time on the tenth day prior to the

payment date for the payment of principal. Any payments in Deutsche Mark shall be made by wire transfer of same-day funds to Deutsche Mark accounts designated by DTC. The term “New York Business Day” shall mean any day other than a Saturday or Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to close.

TVA understands that DTC will, upon receipt of any payment of principal of or interest on the Global Bond, credit DTC participants’ accounts with payment in amounts proportionate to their respective beneficial interests in the principal amount of the Global Bond as shown on the records of DTC. Payments by DTC participants to owners of beneficial interests in the Bonds held through such participants will be the responsibility of such participants, as is now the case with securities held for the accounts of customers registered in “street name”. Distributions with respect to interests in Bonds held through DKV, Euroclear or Cedel Bank will be credited to the cash accounts of DKV account holders, Euroclear participants or Cedel Bank participants in accordance with the relevant system’s rules and procedures, to the extent received by its depository. None of TVA, the Global Agent or the DM Paying Agent will have any responsibility or liability for any aspect of the records relating to, or payments made or to be made on account of, beneficial ownership interests in the Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

If the Deutsche Mark is converted into or replaced by another currency pursuant to law having general and direct applicability to the Federal Republic of Germany (including, for the avoidance of doubt, European Community laws), any payment in respect of the Bonds by TVA shall be made in the currency into or by which the Deutsche Mark has been so converted or replaced, based on the conversion rate prescribed by law having general and direct applicability in the Federal Republic of Germany (including, for the avoidance of doubt, European Community laws) at the time of such payment. If any currency is introduced in the Federal Republic of Germany on the basis of a legally enforceable equivalency to the Deutsche Mark pursuant to law having general and direct applicability in the Federal Republic of Germany (including, for the avoidance of doubt, European Community laws) in preparation for conversion of the Deutsche Mark into, or replacement of the Deutsche Mark by, such other currency, TVA shall be entitled, at its option, to make any payment in respect of the Bonds in such other currency based on the conversion rate prescribed by law having general and direct applicability in the Federal Republic of Germany (including, for the avoidance of doubt, European Community laws) at the time of such payment. A payment made by TVA in a currency other than the Deutsche Mark in accordance with the terms of this paragraph shall not, by itself, constitute a default in TVA’s obligations under the Bonds. The occurrence or nonoccurrence of a currency conversion, replacement or introduction of a type described in this paragraph, by itself, shall not (i) be deemed to be a modification or amendment of the terms or provisions of the Bonds by TVA, (ii) entitle TVA to avoid its obligations under the Bonds or (iii) entitle TVA or any holder of a Bond to rescission of the purchase and sale of any Bond or to reformation of any of the terms or provisions thereof on the grounds of impossibility or impracticability of performance, frustration of purpose or otherwise.

Definitive Bonds

If DTC notifies TVA that it is unwilling or unable to continue as depository for the Global Bond or ceases to be a clearing agency registered under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) at a time when it is required to be so registered and a successor depository is not appointed by TVA within 90 days after receiving such notice or becoming aware that DTC is no longer so registered, TVA will issue or cause to be issued Bonds in definitive form in exchange for the Global Bond. TVA may also at any time and in its sole discretion determine not to have any of the Bonds represented by the Global Bond, and, in such event, will issue or cause to be issued Bonds in definitive form in exchange for the Global Bond. Bonds issued in definitive form will be issued only in fully registered form, without coupons, in denominations of DM 1,000 and integral multiples thereof. Any Bonds so issued will be registered in such names, and in such denominations, as DTC shall request. Such Bonds may be presented for registration of transfer or exchange at the office of the Global Agent in New York City, and principal thereof and interest thereon will be payable at the office of the DM Paying Agent, provided that interest thereon may be paid by check mailed to the registered holders of the definitive Bonds or, at the option of TVA, by electronically transferring funds to such

holders. In the event that any Bonds are issued in definitive form, the Bonds may not be eligible for clearance and settlement through the DKV, and, in such event, the Bonds may be delisted from the Frankfurt Stock Exchange.

Agents

TVA has agreed, in each case subject to applicable laws and regulations and the provisions of the Bonds and the Resolutions, so long as the Bonds are outstanding, to maintain a Global Agent and a DM Paying Agent. The Global Agent initially will be The Chase Manhattan Bank and the DM Paying Agent initially will be The Chase Manhattan Bank, acting through its Frankfurt branch. The addresses of the Global Agent and DM Paying Agent are set forth on the back cover page hereof.

Modification and Amendment

TVA may modify or amend any of the terms or provisions of the Bonds in accordance with the provisions for such modifications and amendments contained in the Basic Resolution. See “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” — “Modifications of Resolutions and Outstanding Bonds” in the current Information Statement. Notwithstanding such provisions contained in the Basic Resolution, TVA may not change the currency of payment of principal of or interest on the Bonds without the consent of the registered holders of all of the outstanding Bonds (other than as described in the last paragraph under “Payment” above).

The Global Agency Agreement may be modified or amended by the mutual agreement of TVA and the Global Agent, without the consent of the holders of the Bonds, in order (1) to add other covenants and agreements to be observed by TVA or to eliminate any right, power or privilege conferred upon TVA, (2) to correct any defect, ambiguity or inconsistency in, or to make provisions in regard to matters or questions arising under, the Global Agency Agreement, so long as such amendments are not contrary to, or inconsistent with the Global Agency Agreement or the Bonds, (3) to effect the issuance of additional Bonds in one or more future installments as discussed below under “Possible Future Issuances” or (4) to make any other modification or amendment to the Global Agency Agreement which TVA in its written opinion to the Global Agent may determine will not materially and adversely affect the interests of holders of the Bonds, to all of which each holder of any Bond shall, by acceptance of such Bonds, consent.

Events of Default; No Acceleration Rights

The Bonds will not contain any provisions permitting acceleration of maturity thereof on the occurrence of any default. For a description of events constituting a default under the Bonds, and the rights of holders of the Bonds upon the occurrence of such events, see “Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” — “Events of Default” in the current Information Statement.

Possible Future Issuances

The Supplemental Resolution provides that, at the option of TVA, additional Bonds may be issued in one or more future installments pursuant to an amendment to the Supplemental Resolution not requiring the consent of holders of Bonds. Additional Bonds so issued shall be identical in all respects to the Bonds offered hereby (with any related changes in the issue date, issue price and interest commencement date).

Governing Law; Judgment

The Global Agency Agreement and the Bonds shall be governed by and construed in accordance with the laws of the State of New York, to the extent such law is not inconsistent with U.S. federal law. Absent TVA’s submission to service of process in the Federal Republic of Germany and submission to the jurisdiction of the German courts, suit could not be brought by a holder of Bonds in the Federal Republic of Germany.

In the event an action based on the Bonds were commenced in a state court in the State of New York, the Judiciary Law of the State of New York would require that such court grant judgment in Deutsche Mark but

that such judgment be converted into U.S. dollars at the rate of exchange prevailing on the date of entry of the judgment. Accordingly, holders of beneficial interests in the Bonds would bear the risk of exchange rate fluctuations between the time the amount of the judgment is calculated and the time such amount is converted from U.S. dollars into Deutsche Mark.

Listings

Application has been made to list the Bonds on the New York Stock Exchange and application will be made to list the Bonds on the Frankfurt Stock Exchange.

Notices

All notices will be delivered in writing to each holder of the Bonds. If at the time of such notice the Bonds are represented by the Global Bond, such notice shall be delivered to DTC and shall be deemed to have been given three Business Days after delivery to DTC. If at the time of such notice the Bonds are not represented by the Global Bond, such notice shall be delivered to the registered holders of the Bonds and in such case shall be deemed to have been given three Business Days after the mailing of such notice by first class mail.

Copies of notices by TVA regarding the Bonds will also be published (a) in a leading daily newspaper in the English language and of general circulation in New York, (b) in a leading daily newspaper in the English language and of general circulation in London and (c) so long as the Bonds are listed on the Frankfurt Stock Exchange, in a mandatory publication (*Börsenpflichtblatt*) of the Frankfurt Stock Exchange. It is expected that copies of such notices will normally be published in *The Wall Street Journal* in New York, *The Financial Times* in London and the *Börsenzeitung* in Frankfurt am Main.

CLEARANCE AND SETTLEMENT

Although DTC, DKV, Euroclear and Cedel Bank have agreed to the procedures provided below in order to facilitate transfers of beneficial interests in the Bonds among participants of DTC, DKV, Euroclear and Cedel Bank, they are under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time. None of TVA, the Managers, the Global Agent or the DM Paying Agent will have any responsibility for the performance by DTC, DKV, Euroclear or Cedel Bank or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations. The following information on clearance and settlement is based on information provided by the several clearing systems identified herein.

Certification and Custody

Clearing and settlement arrangements, including the existing links between DTC, DKV, Euroclear and Cedel Bank, will provide investors access to four major clearing systems. At initial settlement, the Bonds will be represented by the Global Bond, which will not be exchangeable for Bonds in definitive form except in the limited circumstances described herein. Financial institutions that are participants in DTC, including DKV, will hold beneficial interests in the Bonds through their accounts at DTC. In turn, Euroclear and Cedel Bank will hold beneficial interests in the Bonds through DKV and, accordingly, investors electing to hold such interests through financial institutions that are participants in Euroclear and Cedel Bank will hold indirect interests in the Global Bond.

Payment

Principal and interest payments on the Bonds will be made by TVA to the registered holder of the Global Bond in Deutsche Mark as set forth under “Description of Bonds” — “Payment”. All payments duly made by TVA to, or to the order of, the registered holder of the Global Bond, shall discharge the liability of TVA under the Bonds to the extent of the sum or sums so paid. Therefore, after such payments have been duly made, payments by DTC Direct Participants and indirect DTC participants to owners of beneficial interests in the Bonds will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in “street name”, and will be the responsibility

of the DTC Direct Participants or indirect DTC participants. None of TVA, the Managers (except as direct or indirect participants of DTC), the Global Agent or the DM Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made or to be made on account of beneficial interests in the Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

The Clearing Systems

DTC

DTC is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. DTC participants include securities brokers and dealers (including the Managers), banks, trust companies and clearing corporations and may include certain other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Indirect access to the DTC system also is available to indirect DTC participants such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the U.S. Securities and Exchange Commission.

Because DTC can act only on behalf of DTC Direct Participants, who in turn act on behalf of indirect DTC participants and certain banks, the ability of an owner of a beneficial interest in the Bonds to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for such interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in Bonds to such persons may be limited. In addition, beneficial owners of Bonds held through the DTC system will receive distributions of principal and interest on the Bonds only through DTC participants.

DKV

DKV is incorporated under the laws of the Federal Republic of Germany and acts as a specialized depositary and clearing organization. DKV is subject to regulation and supervision by the *Bundesaufsichtsamt für das Kreditwesen* (the German banking supervisory authority). DKV holds securities for its account holders and facilitates the clearance and settlement of securities transactions between them through electronic book-entry changes in securities accounts with simultaneous payment in Deutsche Mark in same-day funds. Thus the need for physical delivery of certificates is eliminated. DKV provides to its account holders, among other things, services for safekeeping, administration, clearance and settlement of domestic German and internationally traded securities and securities lending and borrowing. DKV account holders are banking institutions located in the Federal Republic of Germany, including German branches of non-German financial institutions, and securities brokers or dealers admitted to a German stock exchange that meet certain additional requirements. Indirect access to DKV is available to others such as underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and others, including individuals, that clear through or maintain custodial relationships with DKV account holders either directly or indirectly.

Cedel Bank and Euroclear

Cedel Bank and Euroclear each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Cedel Bank and Euroclear provide various services including safekeeping, administration, clearance

and settlement of internationally traded securities and securities lending and borrowing. Cedel Bank and Euroclear also deal with domestic securities markets in several countries through established depository and custodial relationships. Cedel Bank and Euroclear have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Cedel Bank and Euroclear customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Cedel Bank and Euroclear is available to other institutions which clear through or maintain a custodial relationship with an account holder of either system.

Initial Settlement

The Global Bond will be delivered at initial settlement to The Chase Manhattan Bank, in New York, as custodian for DTC. Initial settlement for the Bonds will be made in immediately available Deutsche Mark funds (*i.e.*, for value on the date of delivery of the Bonds). However, the Managers are prepared to arrange for the conversion of U.S. dollars into Deutsche Mark to enable United States investors to make payments in Deutsche Mark. See “Currency Conversions and Foreign Exchange Risks”.

Customary settlement procedures will be followed for participants of each system at initial settlement. Settlement procedures applicable to the domestic Deutsche Mark market will be followed for primary market purchasers which are DKV account holders, and beneficial interests in the Bonds will be credited to their securities accounts on the settlement date against payment in Deutsche Mark in same-day funds. Settlement procedures applicable to Deutsche Mark eurobonds will be followed for primary market purchasers which are Euroclear or Cedel Bank participants, and beneficial interests in the Bonds will be credited to their securities accounts on the business day following the settlement date against payment for value on the settlement date. Primary market purchasers which are DTC participants can have their securities accounts with DTC credited with beneficial interests in the Bonds (i) free of payment if they have arranged for payment in Deutsche Mark outside DTC and (ii) against payment in U.S. dollars in same-day funds on the settlement date through DTC’s Same-Day Funds Settlement System.

Secondary Market

Secondary market sales between purchasers within a single clearing system and between Euroclear and Cedel Bank participants. Secondary market sales of beneficial interests in Bonds for settlement within each clearing system will be settled in accordance with the rules and procedures established by the relevant system. Settlement within DKV of regular sales at the stock exchange in Frankfurt will be made on a two business day basis. Sales to be settled within Euroclear or Cedel Bank and between Euroclear and Cedel Bank will normally settle on a three business day basis unless parties specify a different period (which may be as short as two business days). Sales to be settled within DTC will be settled using the procedures applicable to U.S. corporate debt obligations in DTC’s Same-Day Funds Settlement System in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. In such case, separate payment arrangements outside of DTC are required to be made between the DTC participants.

Secondary market sales between DKV account holders and Euroclear or Cedel Bank participants. These trades normally settle on a three business day basis (unless parties specify a different period, which may be as short as two business days).

Secondary market sales from a DTC participant (other than DKV) to a DKV account holder or a Euroclear or Cedel Bank participant. Prior to 5:00 p.m. Frankfurt time on the Business Day prior to settlement, a DTC participant (other than DKV and its participants) selling beneficial interests in Bonds to a DKV account holder or a Euroclear or Cedel Bank participant will deliver the beneficial interests in Bonds to DKV’s account with DTC by means of DTC’s Deliver Order procedure, specifying the DKV account holder to whom such beneficial interests are being sold. If such beneficial interests are being sold to a Euroclear or a Cedel Bank participant, DKV also must be notified of the account number of the respective Euroclear or Cedel Bank participant, as the case may be, within the Euroclear or Cedel Bank system, as the case may be, prior to 5:00 p.m. Frankfurt time on the Business Day prior to the settlement date. Transactions between DKV

and other DTC participants can only be made free of payment; thus, separate payment arrangements outside of DTC are required to be made. Notwithstanding the foregoing, transfers of beneficial interests in Bonds between DKV and Euroclear and between DKV and Cedel Bank may be effected against payment in Deutsche Mark within such systems.

Secondary market sales from a DKV account holder or a Euroclear or Cedel Bank participant to a DTC participant (other than DKV). Prior to 5:00 p.m. Frankfurt time on the Business Day prior to the settlement date, a DKV account holder or Euroclear or Cedel Bank, through DKV, for the account of one of its participants, selling beneficial interests in Bonds to a DTC participant (other than DKV and its participants) must instruct DKV to transfer such beneficial interests to such other DTC participant, indicating the account number of such other participant. Transactions between DKV and other DTC participants can only be made free of payment; thus separate payment arrangements outside of DTC are required to be made. Notwithstanding the foregoing, transfers of beneficial interests in Bonds between DKV and Euroclear and between DKV and Cedel Bank may be effected against payment in DM within such systems.

CURRENCY CONVERSIONS AND FOREIGN EXCHANGE RISKS

Currency Conversions

Initial purchasers of Bonds are required to make payment in Deutsche Mark. The Managers are prepared to arrange for the conversion of U.S. dollars into Deutsche Mark to enable investors in the United States to make payment in Deutsche Mark. Each such conversion will be made by such Manager on such terms and subject to such conditions, limitations and charges as such Manager may from time to time establish in accordance with its regular foreign exchange practices, and subject to applicable U.S. laws and regulations. All costs of conversions will be borne by such investors. See “Foreign Exchange Risks”.

TVA is required to make principal and interest payments in respect of the Bonds in Deutsche Mark. However, a DTC Direct Participant (other than DKV) will be paid in U.S. dollars converted or caused to be converted from such Deutsche Mark payments by the DM Paying Agent unless the DTC Direct Participant elects to receive payments in Deutsche Mark as described below; *provided, however*, that DKV (in its capacity as a DTC Direct Participant and as a participant in DTC) and any persons who hold beneficial interests in the Bonds directly or indirectly through DKV (including Euroclear and Cedel Bank and their respective participants) (i) shall receive all payments in Deutsche Mark without making any such election and (ii) may not elect to receive payments in other than Deutsche Mark. See “Description of Bonds” — “Payment”.

As long as Bonds continue to be represented by the Global Bond, a holder of a beneficial interest in the Bonds (other than DKV and any persons who hold beneficial interests in the Bonds directly or indirectly through DKV (including Euroclear and Cedel Bank and their respective participants)) may elect to receive payment in respect of principal of or interest on the Bonds in Deutsche Mark instead of dollars, as set forth under “Description of Bonds” — “Payment”, by notifying the DTC participant through which its Bonds are held on or prior to the applicable Record Date of (i) such investor’s election to receive all or a portion of such payment in Deutsche Mark, and (ii) wire transfer instructions to a Deutsche Mark account in the Federal Republic of Germany. DTC must be notified of such election and wire transfer instructions on or prior to the third New York Business Day after such Record Date for any payment of interest, and, on or prior to the twelfth day prior to the payment of principal. DTC will notify the Global Agent and the DM Paying Agent of such election and wire transfer instructions on or prior to 5:00 p.m. New York time on the fifth New York Business Day after such Record Date for any payment of interest and on or prior to 5:00 p.m. New York time on the tenth day prior to the payment of principal. If complete instructions are forwarded to DTC through DTC participants and by DTC to the Global Agent and the DM Paying Agent on or prior to such dates, such investor will receive payment in Deutsche Mark outside DTC; otherwise, only U.S. dollar payments will be made by the DM Paying Agent to DTC. All costs of such payment by wire transfer will be borne by holders of beneficial interests receiving such payments by deduction from such payments. See “Description of Bonds” — “Payment”.

Foreign Exchange Risks

An investment in securities that are denominated in, and all payments in respect of which are to be made in, a currency other than the currency of the country in which the purchaser is resident or the currency in which the purchaser conducts its business or activities (the “home currency”) entails significant risks not associated with a similar investment in a security denominated in the home currency. Such risks include, without limitation, the possibility of significant changes in rates of exchange between the home currency and the U.S. dollar or Deutsche Mark and the possibility of the imposition or modification of foreign exchange controls with respect to the U.S. dollar or Deutsche Mark. Such risks generally depend on events over which TVA has no control, such as economic and political events and the supply of and demand for the U.S. dollar or Deutsche Mark and the home currency. In recent years, rates of exchange for certain currencies have been highly volatile and such volatility may be expected to continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations in such rate that may occur during the term of the Bonds. Depreciation of the U.S. dollar or Deutsche Mark against the relevant home currency could result in a decrease in the effective yield of the Bonds below the interest rate thereof and, in certain circumstances, could result in a loss to the investor on a home currency basis.

This description of foreign currency risks does not describe all the risks of an investment in securities denominated in a currency other than the home currency. Prospective investors should consult their own financial and legal advisers as to the risks involved in an investment in the Bonds.

LEGALITY OF INVESTMENT IN THE UNITED STATES

The following generally describes the legality in the United States of investment in TVA Evidences of Indebtedness. Potential investors are advised to consult with their own counsel with respect to the legality of investment in the Bonds.

Evidences of Indebtedness are lawful investments and may be accepted as security for all fiduciary, trust and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America. 16 U.S.C. § 831n-4(d).

Evidences of Indebtedness are acceptable as collateral for U.S. Treasury tax and loan accounts pursuant to 31 C.F.R. § 203.14(d)(1).

U.S. national banks may deal in, underwrite and purchase Evidences of Indebtedness for their own accounts in an amount not to exceed ten percent of unimpaired capital and surplus. 12 U.S.C. § 24, seventh paragraph.

U.S. Federal Reserve Banks may accept Evidences of Indebtedness as eligible collateral for advances to depository institutions. 12 U.S.C. § 347 and 12 C.F.R. § 201.108(b)(13).

U.S. federal savings associations and U.S. federal savings banks may, to the extent specified in applicable regulations, invest in Evidences of Indebtedness without regard to limitations generally applicable to investments. 12 U.S.C. § 1464(c)(1)(F).

Evidences of Indebtedness are eligible as collateral for advances by U.S. Federal Home Loan Banks to U.S. federal savings and loan associations, U.S. federal savings banks and other members for which Evidences of Indebtedness are legal investments. 12 U.S.C. § 1430(a) and 12 C.F.R. § 935.9(a)(2).

U.S. federal credit unions may purchase Evidences of Indebtedness. 12 U.S.C. § 1757(7)(E).

Evidences of Indebtedness are “obligations of a corporation which is an instrumentality of the United States” within the meaning of Section 7701(a)(19)(C)(ii) of the U.S. Internal Revenue Code for purposes of the 60 percent of assets limitation applicable to U.S. building and loan associations.

UNITED STATES TAX MATTERS

The following discussion describes certain United States federal (and state and local, where specifically noted) income and estate tax consequences of the purchase, ownership, and disposition of the Bonds and is based upon the opinion of Sullivan & Cromwell. This discussion deals only with Bonds held as capital assets by initial purchasers and not with special classes of beneficial owners, such as securities dealers, banks, tax-exempt organizations, life insurance companies, persons that hold Bonds that are part of a hedge, straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar. This summary is based upon the Act, the Internal Revenue Code of 1986, as amended, legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect. Both Sullivan & Cromwell's opinion and this tax discussion are based in part upon representations received from TVA. Each prospective purchaser of a Bond may neither construe as legal advice nor rely on the following discussion but rather should consult its own tax advisor with respect to the federal, state and local tax consequences associated with ownership of a Bond in such prospective purchaser's particular circumstances, as well as any consequences arising under the laws of any other taxing jurisdiction.

For purposes of this discussion, "U.S. Beneficial Owner" means any beneficial owner of a Bond who or which is (i) a citizen or resident of the United States, (ii) a corporation organized in or under the laws of the United States or any political subdivision thereof or (iii) otherwise subject to United States federal income taxation on a net income basis in respect of the Bond and "U.S. Alien Holder" means any holder of a Bond who or which is (i) a nonresident alien individual or (ii) a foreign corporation, partnership or estate or trust which is not subject to United States federal income taxation on a net income basis in respect of the Bond.

U.S. Beneficial Owners

Interest on a Bond will be taxable to a U.S. Beneficial Owner at the time that it is received or accrued, depending upon the U.S. Beneficial Owner's method of accounting for U.S. federal income tax purposes. The amount of income recognized by a cash basis U.S. Beneficial Owner will be the U.S. dollar value of an interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. Accrual basis U.S. Beneficial Owners may determine the amount of income recognized with respect to interest payments in accordance with either of two methods, in either case regardless of whether the payments are in fact converted into U.S. dollars. Under the first method, the amount of income recognized will be based upon the average exchange rate in effect during the interest accrual period (or, with respect to an accrual period that spans two taxable years, the partial period within the taxable year).

Under the second method, an accrual basis U.S. Beneficial Owner may elect to translate interest income into U.S. dollars at the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, at the exchange rate in effect on the last day of the partial period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period or taxable year, an electing accrual basis U.S. Beneficial Owner may instead translate such accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any election to use the second method will apply to all debt instruments held by the U.S. Beneficial Owner at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Beneficial Owner, and will be irrevocable without the consent of the Internal Revenue Service.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Bond), an accrual basis U.S. Beneficial Owner will recognize ordinary income or loss measured by the difference between (x) the average exchange rate used to accrue interest income, or the exchange rate as determined under the second method described above if the U.S. Beneficial Owner elects that method, and (y) the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

There is no special exemption for a Bond from U.S. federal estate and gift tax.

The Act provides that the Bonds are exempt both as to principal and interest from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes. This

exemption might not extend to franchise or other non-property taxes in lieu thereof imposed on corporations or to gain or loss realized upon the sale or exchange of a Bond.

A U.S. Beneficial Owner's initial tax basis in a Bond will generally be its U.S. dollar cost. The U.S. dollar cost of a Bond purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Bonds traded on an established securities market (within the meaning of Treasury Regulation Section 1.988-2(a)(2)(iv)) purchased by a cash basis U.S. Beneficial Owner (or an electing accrual basis U.S. Beneficial Owner), on the settlement date for the purchase. Upon a sale or exchange of a Bond, a U.S. Beneficial Owner generally will recognize gain or loss equal to the difference between the amount realized on the sale or exchange and the U.S. Beneficial Owner's adjusted basis for the Bond. The amount realized on a sale or retirement for an amount in a foreign currency will be the U.S. dollar value of such amount on the date of the sale or retirement or, in the case of Bonds traded on an established securities market (within the meaning of Treasury Regulation Section 1.988-2(a)(2)(iv)) sold by a cash basis U.S. Beneficial Owner (or an electing accrual basis U.S. Beneficial Owner) on the settlement date for the sale. Except to the extent described in the next succeeding paragraph or attributable to accrued but unpaid interest, gain or loss recognized on the sale or retirement of a Bond will be capital gain or loss and will be long-term capital gain or loss if the Bond was held for more than one year.

Gain or loss recognized by a U.S. Beneficial Owner on the sale or retirement of a Bond that is attributable to changes in exchange rates will be treated as ordinary income or loss. However, exchange gain or loss is taken into account only to the extent of total gain or loss realized on the transaction.

Foreign currency received as interest on a Bond or on the sale or retirement of a Bond will have a tax basis equal to its U.S. dollar value at the time such interest is received or at the time of such sale or retirement. Any gain or loss recognized on a sale or other disposition of foreign currency (including its use to purchase Bonds or upon exchange for U.S. dollars) will be ordinary income or loss.

If a U.S. Beneficial Owner purchases a Bond for less than its stated redemption price at maturity, in general, that difference will be market discount (unless the discount is less than $\frac{1}{4}$ of 1% of the stated redemption price at maturity of the Bond multiplied by the number of complete years remaining to maturity). In general, under the market discount rules, unless the U.S. Beneficial Owner elects to accrue market discount in income currently, any gain on a disposition of a market discount Bond will be ordinary income to the extent of accrued market discount, and deductions for a portion of the interest on any indebtedness incurred or continued to purchase or carry the Bond may be deferred. Market discount shall be calculated in Deutsche Mark (or a successor or a replacement currency, as described above under the heading "Description of Bonds" — "Payment"). Accrued market discount (other than market discount included in income on a current basis) is translated into U.S. dollars at the spot rate on the date the Bond is disposed of. No part of such accrued market discount is treated as exchange gain or loss. Market discount that is included in income on a current basis is translated into U.S. dollars at the average exchange rate for the accrual period and, upon receipt of a payment attributable to such accrued market discount, exchange gain or loss shall be recognized based upon such average exchange rate and the exchange rate in effect on the date of receipt.

A U.S. Beneficial Owner who purchases a Bond for an amount greater than the amount payable at maturity of the Bond may elect to amortize the bond premium. In the case of a U.S. Beneficial Owner that makes an election to amortize bond premium or has previously made an election that remains in effect, amortizable bond premium on a Bond generally will be treated as a reduction of the interest income on a Bond on a constant yield basis (except to the extent regulations may provide otherwise) over the term of the Bond. The basis of a debt obligation purchased at a premium is reduced by the amount of amortized bond premium. An election to amortize bond premium will apply to certain other debt instruments acquired at a premium by a U.S. Beneficial Owner and may have different tax consequences depending on when the debt instruments were issued or acquired. A U.S. Beneficial Owner should consult a tax advisor before making that election.

Amortizable bond premium will be computed in Deutsche Mark (or a successor or a replacement currency, as described above under the heading "Description of Bonds" — "Payment") and will reduce interest income in Deutsche Mark (or such successor or replacement currency). At the time that amortizable bond premium offsets interest income, exchange gain or loss (taxable as ordinary income or loss) is realized

measured by the difference between exchange rates at that time and at the time of the acquisition of the Bonds.

U.S. Alien Holders

Generally, a U.S. Alien Holder will not be subject to United States federal withholding tax on interest on a Bond; provided, that (i) the beneficial owner of the Bond is not a controlled foreign corporation that is related to TVA through stock ownership (TVA states that under current circumstances there are no controlled foreign corporations that are so related to TVA), and (ii) either (A) the beneficial owner of the Bond certifies, under penalties of perjury, to TVA's withholding agent that it is not a United States person and provides its name and address or (B) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business and holds the Bond certifies to TVA's withholding agent under penalties of perjury that such statement has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner and furnishes the payor with a copy thereof. The certification may be made on an Internal Revenue Service Form W-8 or substantially similar substitute form, and the beneficial owner must inform the payor of any change in the information on the statement within 30 days of such change.

Recently proposed U.S. Treasury Regulations (the "Proposed Regulations") would provide alternative methods for satisfying the certification requirement described in clause (ii) above. The Proposed Regulations would also require, in the case of Bonds held by a foreign partnership, that (x) the certification described in clause (ii) above be provided by the partners rather than the foreign partnership and (y) the partnership provide certain information, including a U.S. taxpayer identification number. A look-through rule would apply in the case of tiered partnerships. The Proposed Regulations are proposed to be effective for payments made after December 31, 1997. There can be no assurance that the Proposed Regulations will be adopted or as to the provisions that they will include if and when adopted in temporary or final form.

Generally, any amount which constitutes capital gain to a U.S. Alien Holder upon retirement or disposition of a Bond will not be subject to federal withholding tax. Certain exceptions may be applicable and an individual U.S. Alien Holder should consult a tax advisor.

A Bond held by an individual who at death is not a citizen or resident of the United States will not be includible in the individual's gross estate for purposes of the United States federal estate tax as a result of the individual's death if the income on the Bond would not have been effectively connected with a United States trade or business of the individual at the individual's death.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to payments of principal and interest on a Bond and the proceeds of the sale of a Bond before maturity within the United States to non-corporate U.S. Beneficial Owners, and "backup withholding" at a rate of 31 percent will apply to such payments if the U.S. Beneficial Owner fails to provide an accurate taxpayer identification number or to report all interest and dividends required to be shown on its federal income tax returns.

Information reporting and backup withholding will not apply to payments of principal and interest made by TVA or a paying agent to a U.S. Alien Holder on a Bond if the certification as to foreign status described above in clause (ii) under "U.S. Alien Holders" is received, provided that the payor does not have actual knowledge that the holder is a United States person.

Payments of the proceeds from the sale by a U.S. Alien Holder of a Bond made to or through a foreign office of a broker will not be subject to information reporting or backup withholding, except that if the broker is a United States person, a controlled foreign corporation for United States tax purposes or a foreign person 50 percent or more of whose gross income is effectively connected with a United States trade or business for a specified three-year period, information reporting may apply to such payments. Payment of the proceeds from the sale of a Bond to or through the United States office of a broker is subject to information reporting and

backup withholding unless the holder or beneficial owner certifies as to its non-United States status or otherwise establishes an exemption from information reporting and backup withholding.

GERMAN TAX MATTERS

The following discussion describes certain German tax matters with respect to the Bonds and is based upon the opinion of Bruckhaus Westrick Stegemann.

In the Federal Republic of Germany, payments of interest on the Bonds are subject to an advance income tax (*Zinsabschlagsteuer*) (i) at a rate of 30% if the interest payments are made by a credit institution located in the Federal Republic of Germany in respect of Bonds on deposit with or administered by such credit institution and held by (a) German tax residents (as a rule, persons whose residence, customary place of abode, head office or management is located in the Federal Republic of Germany) or (b) persons who are subject to limited tax liability only with respect to their German-source income and the interest on the Bonds represents German-source income such as income from German agriculture or forestry, trade, business, self-employment or licensing, letting or leasing of German property (within the meaning of § 43(4) and § 49 of the German Income Tax Law) and (ii) at a rate of 35% if the interest payments are made by a credit institution located in the Federal Republic of Germany upon presentation of definitive Bond certificates by a German or foreign holder (other than a foreign credit institution).

Effective as of January 1, 1995, the aforementioned rates of advance income tax have been increased from 30% to 32.25% and from 35% to 37.625% (so-called *Solidaritätszuschlag*).

Accrued interest for the time of ownership is also subject to the withholding tax described herein. Special regulations exist with respect to the deduction of advance income tax upon the sale, transfer and redemption of Bonds and/or (interest) rights pertaining thereto.

Any amounts so withheld may later be credited to German tax residents as a pre-payment for the purposes of the German income tax assessment. Subject to any applicable double taxation treaty and some further exceptions, non-residents for German tax purposes will not be able to reclaim any taxes so withheld.

The above description only represents a summary of the respective provisions of German withholding tax laws and regulations which, due to its summary character, does not cover all details and tax exemptions which may apply in specific individual cases and may even require a deviation therefrom. Furthermore, it does not deal with any tax other than the withholding tax as described. Therefore, prospective investors may not rely on such summary description, but are advised to consult their own professional advisers.

SUBSCRIPTION AND SELLING

Subject to the terms and conditions set forth in the Subscription Agreement relating to the Bonds, TVA has agreed to sell to each of the Managers named below (the “Managers”) and each of the Managers, for whom Lehman Brothers Bankhaus Aktiengesellschaft and Deutsche Bank Aktiengesellschaft are acting as Joint Lead Managers, has severally agreed to purchase the principal amount of Bonds set forth opposite its name below.

<u>Manager</u>	<u>Principal Amount of Bonds</u>
Lehman Brothers Bankhaus Aktiengesellschaft	DM 604,000,000
Deutsche Bank Aktiengesellschaft	604,000,000
NOMURA BANK (Deutschland) GmbH	50,000,000
Bayerische Landesbank Girozentrale	22,000,000
Caisse des dépôts et consignations GmbH	22,000,000
Commerzbank Aktiengesellschaft	22,000,000
CS First Boston Effectenbank Aktiengesellschaft	22,000,000
Dresdner Bank Aktiengesellschaft	22,000,000
Merrill Lynch Bank AG	22,000,000
Mitsui Trust International Limited	22,000,000
Morgan Stanley Bank AG	22,000,000
Salomon Brothers AG	22,000,000
Trinkaus & Burkhardt Kommanditgesellschaft auf Aktien	22,000,000
Westdeutsche Landesbank Girozentrale	22,000,000
Total	<u>DM1,500,000,000</u>

The Managers have advised TVA that they propose to offer all or part of the Bonds directly to retail purchasers at the initial public offering price set forth on the cover page of this Offering Circular, and to certain securities dealers at such price less a concession of 0.20% of the principal amount of the Bonds. After the Bonds are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Managers.

Each Manager has represented and agreed that it will offer and sell the Bonds in accordance with the provisions of the German Securities Prospectus Act of 13th December, 1990, as amended, or any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of the Bonds.

Each Manager has represented and agreed that it (1) has not offered or sold and, prior to the expiry of six months from the closing date with respect to the Bonds, will not offer or sell any Bonds in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principals or agents) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public within the meaning of the Public Offers of Securities Regulations 1995 in the United Kingdom, (2) has complied and will comply with all applicable provisions of the United Kingdom Financial Services Act 1986 with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom and (3) has only issued or passed on, and will only issue or pass on, in the United Kingdom any document received by it in connection with the issue of the Bonds to a person who is of a kind described in Article 11(3) of the United Kingdom Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

Purchasers of Bonds may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price set forth above.

TVA has agreed to indemnify the Managers against certain civil liabilities.

GENERAL INFORMATION

1. The issuance of the Bonds was authorized pursuant to the Resolutions. At the date of issue, all necessary legal authorizations for issuance of the Bonds will have been obtained by TVA.

2. The Bonds have been accepted for clearance by Euroclear and Cedel Bank. The Common Code for the Bonds is 6953832, the ISIN is US880591 CM28, the CUSIP number is 880591 CM2 and the WKN is 134180.

3. There has been no material adverse change in the financial position (including capital expenditures) of TVA since June 30, 1996.

4. In addition to the audit described in the Report of Independent Accountants included in the current Information Statement, Coopers & Lybrand L.L.P., independent accountants, have audited TVA's financial statements as of September 30, 1994 and 1993 and for each of the three years in the period ended September 30, 1994, and their report thereon is attached as Annex 1 hereto.

VALIDITY OF BONDS

The validity of the Bonds will be passed upon for TVA by Edward S. Christenbury, Esq., General Counsel of TVA, and for the Managers by Orrick, Herrington & Sutcliffe LLP, 666 Fifth Avenue, 18th Floor, New York, New York 10103 U.S.A.

* * * * *

Any statements in this Offering Circular involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Offering Circular is not to be construed as a contract or agreement with the purchaser of any of the Bonds.

TENNESSEE VALLEY AUTHORITY

By: /s/ DAVID N. SMITH
David N. Smith
Chief Financial Officer

Dated September 11, 1996

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of Tennessee Valley Authority

We have audited the accompanying balance sheets (power program and all programs) of Tennessee Valley Authority as of September 30, 1994 and 1993 and the related statements of operations and retained earnings (power program), net expense and accumulated net expense (nonpower programs) and cash flows (power program and all programs) for each of the three years in the period ended September 30, 1994. These financial statements are the responsibility of Tennessee Valley Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, TVA is reevaluating the need for completing certain nuclear units as part of its long-term energy strategy.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the power program and all programs of Tennessee Valley Authority as of September 30, 1994 and 1993, and the results of operations of the power program and nonpower programs and cash flows of the power program and all programs for each of the three years in the period ended September 30, 1994 in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.
Knoxville, Tennessee
November 15, 1994

INFORMATION STATEMENT

TENNESSEE VALLEY AUTHORITY

**A Wholly Owned Corporate Agency
and Instrumentality of the**

UNITED STATES OF AMERICA

The Tennessee Valley Authority ("TVA" or "Corporation") presents this Information Statement ("Statement") for the information of potential purchasers of its Power Bonds (the "New Power Bonds"), including its First Installment Series Bonds (the "Installment Bonds" — sometimes called "FISBS"), its Discount Notes and such other evidences of indebtedness ("Other Indebtedness") it may issue pursuant to the Act (as defined below). New Power Bonds are to be issued pursuant to authority vested in TVA by the Tennessee Valley Authority Act of 1933, as amended (the "Act") and the Basic Tennessee Valley Authority Power Bond Resolution adopted by the Board of Directors of TVA (the "Board") on October 6, 1960, as amended on September 28, 1976, October 17, 1989, and March 25, 1992 (the "Basic Resolution"). Discount Notes and Other Indebtedness are issued pursuant to the Act and their respective authorizing resolutions.

TVA may from time to time offer New Power Bonds and Other Indebtedness and may offer on a continuous basis Discount Notes for sale by direct placements or through selected investment dealers, dealer banks, underwriters, or underwriting syndicates as TVA deems appropriate. Information concerning particular offerings of New Power Bonds, Discount Notes or Other Indebtedness will be described in an appropriate offering circular and in any supplement thereto. This Statement, and any supplement hereto, should be read in conjunction with the offering circular and any supplement thereto for the particular New Power Bonds, Discount Notes or Other Indebtedness being offered.

This Statement will be updated by supplements or replaced from time to time to reflect annual financial results of the Corporation and as otherwise determined appropriate by the Corporation. Any provisions herein modified or superseded shall not be deemed, except as so modified, to constitute a part of this Statement. Additional copies of this Statement may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (423) 632-3366.

No salesperson, dealer or other person has been authorized to give any information or to make any representations not contained herein or in a specific offering circular or supplement approved by TVA, and, if given or made, such information or representation must not be relied upon as having been authorized by TVA. This Statement and any offering circular or supplement do not constitute an offer to sell or a solicitation of any offer to buy any of the New Power Bonds, Discount Notes or Other Indebtedness offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. The delivery of this Statement and any offering circular or supplement at any time does not imply that the information given herein or therein is correct at any time subsequent to its respective date.

THE NEW POWER BONDS, DISCOUNT NOTES, AND OTHER INDEBTEDNESS OF TVA WILL NOT BE OBLIGATIONS OF, NOR WILL PAYMENT OF PRINCIPAL THEREOF OR ANY INTEREST THEREON BE GUARANTEED BY, THE UNITED STATES OF AMERICA. PRINCIPAL AND INTEREST, IF ANY, WILL BE PAYABLE SOLELY FROM TVA'S NET POWER PROCEEDS AS HEREIN DEFINED. THE NEW POWER BONDS, DISCOUNT NOTES, AND OTHER INDEBTEDNESS ARE NOT REQUIRED TO BE REGISTERED UNDER THE SECURITIES ACT OF 1933. ACCORDINGLY, NO REGISTRATION STATEMENT HAS BEEN, AND NONE WILL BE, FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. TVA IS NOT SUBJECT TO THE PERIODIC REPORTING REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934.

This Statement describes the business and operations of TVA as of its date and the financial condition of TVA as of the date of the financial statements included herein. Recipients of this Statement should retain it for future reference until such time as a subsequent Statement is made available by TVA, but delivery or retention of this Statement after the date hereof shall not create any implication that the information provided herein is correct at any time after the date hereof.

The date of this Information Statement is March 20, 1996.

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THE TENNESSEE VALLEY AUTHORITY

TVA is a wholly owned corporate agency and instrumentality of the United States established by the Act with the objective of developing the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense.

TVA's programs fall into two types of activities — the power program and the nonpower programs. Substantially all TVA revenues and assets are attributable to the power program. Most of the funding for TVA's nonpower programs is provided by congressional appropriations. Additional funds are obtained for financing certain nonpower activities from various revenues and user fees associated with nonpower activities. Congress appropriated \$143 million for TVA's nonpower programs in fiscal year 1995, which was reduced by a \$5 million rescission by action of Congress in July 1995. TVA has received \$109 million in congressional appropriations for fiscal 1996. The power program is required to be self-supporting from revenues it produces and capital it raises in the public markets. Financial accounts for the two types of TVA activities — power and nonpower — are kept separately. Proceeds from the sale of TVA's New Power Bonds, Discount Notes, and Other Indebtedness (collectively "Evidences of Indebtedness") may be used only for the power program.

TVA is authorized by the Act to issue Evidences of Indebtedness to assist in financing its power program in an amount not exceeding \$30 billion outstanding at any one time. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Issuance of Additional Bonds and Other Evidences of Indebtedness".

Congress has reserved the right to alter, amend or repeal the Act, but has provided that no amendment or repeal shall operate to impair the obligation of any contract made by TVA in the exercise of any power conferred by the Act.

TVA is administered by the Board, which is composed of three persons appointed by the President and confirmed by the Senate. Appointments are for nine-year staggered terms with one term expiring with each three-year interval. The Board has sole authority for determining the rates which TVA charges for power. The Act requires the Corporation to charge rates for power which, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states and counties in lieu of taxes; debt service on outstanding Evidences of Indebtedness, including provision and maintenance of reserve funds and other funds established in connection therewith; and annual payments to the U.S. Treasury (the "Treasury") in repayment of and as a return on the government's appropriation investment in TVA power facilities. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness". Such appropriation investment totaled \$628 million as of September 30, 1995. See "Certain Provisions of the Tennessee Valley Authority Act" — "Payments to the Treasury".

TVA is required annually to file with the President and with the Congress a financial statement and a complete report as to the business of the Corporation. The Comptroller General of the United States is authorized to periodically audit the transactions of TVA.

Under certain conditions, TVA may borrow from the Treasury up to \$150 million for a period of one year or less. Any issuance by TVA of Evidences of Indebtedness with a term of one year or longer is subject to the approval of the Secretary of the Treasury as to the issue date and maximum interest rate. The borrowing authority of TVA is treated as budget authority by the Office of Management and Budget for purposes of the budget of the United States.

Income on Evidences of Indebtedness issued by TVA is subject to various federal tax consequences. Under the Act, Evidences of Indebtedness are exempt both as to principal and interest from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes.

SELECTED FINANCIAL DATA

The following selected financial data of TVA's power program for the fiscal years 1991 through 1995 have been summarized or derived from TVA's audited financial statements. These data should be read in conjunction with the audited financial statements and notes thereto presented elsewhere herein.

Condensed Statements of Income (Dollars in Millions)

	Fiscal Year Ended September 30				
	1995	1994	1993	1992	1991
Operating Revenues	\$ 5,375	\$ 5,401	\$ 5,276	\$ 5,065	\$ 5,136
Operating Expenses	3,448	3,461	3,269	3,198	3,047
Operating Income	1,927	1,940	2,007	1,867	2,089
Other Income and Expense, Net	(91)	(59)	23	(87)	24
Income Before Interest Charges	1,836	1,881	2,030	1,780	2,113
Interest Expense	2,024	1,853	1,777	1,695	1,677
Allowance for Funds					
Used During Construction	(198)	(123)	(58)	(35)	(73)
Net Interest Charges	1,826	1,730	1,719	1,660	1,604
Income before cumulative effect of accounting change	10	151	311	120	509
Cumulative effect of postretirement benefits change	—	—	—	—	(223)
Net Income	<u>\$ 10</u>	<u>\$ 151</u>	<u>\$ 311</u>	<u>\$ 120</u>	<u>\$ 286</u>
Ratio of Earnings to Fixed Charges(1)	1.01	1.08	1.18	1.07	1.17

Condensed Balance Sheet (Dollars in Millions)

	September 30				
	1995	1994	1993	1992	1991
Assets					
Current Assets	\$ 1,088	\$ 1,025	\$ 1,434	\$ 1,724	\$ 1,816
Property, Plant, and Equipment	29,301	28,071	27,888	24,893	23,871
Investment Funds	260	150	—	188	170
Deferred Charges and Other Assets	2,644	2,596	1,601	2,514	2,164
TOTAL ASSETS	<u>\$33,293</u>	<u>\$31,842</u>	<u>\$30,923</u>	<u>\$29,319</u>	<u>\$28,021</u>
Liabilities and Proprietary Capital					
Current Liabilities	\$ 5,416	\$ 4,591	\$ 4,942	\$ 3,372	\$ 2,813
Other Liabilities	1,264	963	1,034	2,993	3,127
Long-Term Debt(2)	22,583	22,206	20,954	19,204	18,374
Proprietary Capital	4,030	4,082	3,993	3,750	3,707
TOTAL LIABILITIES AND PROPRIETARY CAPITAL	<u>\$33,293</u>	<u>\$31,842</u>	<u>\$30,923</u>	<u>\$29,319</u>	<u>\$28,021</u>

(1) Ratio of Earnings to Fixed Charges (unaudited) is calculated by dividing Net Income plus Interest Expense by Interest Expense.

(2) See Note 6 of "Notes to Financial Statements" in the Financial Statements with respect to defeased debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Operating Environment

The financial results for 1995 are indicative of the challenges facing the electric-utility industry in general and TVA in particular. Net income for 1995 was \$10 million as compared with \$151 million for 1994 and \$311 million for 1993. One of the primary reasons for the decrease in net income was a one-time \$136-million nonoperating charge for a voluntary early-out package accepted by about 2,500 employees in fiscal year 1995. The current year expense associated with this early-out package was significant; however, this action, along with TVA's ongoing control of operating and financing costs, is reflective of TVA's commitment to reduce the cost of producing electricity.

For 1994, TVA had a charge of \$140 million for the exchange of certain uranium assets. Amortization expense was increased by \$126 million due to a reclassification of a portion of the capitalized interest component of nuclear fuel to other deferred charges. TVA also recognized a gain of \$82 million from the sale of securities in September 1993. See Notes 1 and 2 of "Notes to Financial Statements" in the Financial Statements.

TVA has continued to increase generation and sales over the past eight years even though the number of employees has decreased. Sales have increased from about 108-billion kilowatt-hours ("kWh") in 1987 to about 134-billion kWh in 1995. This increase in kWh sales is due in part to TVA's ability to maintain competitive rates. Rates have not risen in over nine years. In fact, because of economic pricing programs developed for industrial customers, average electric revenue per kWh has steadily declined from 47.2 mills per kWh in 1987 to 39.4 mills per kWh in 1995.

Operating Revenues

Operating revenue was \$5,375 million in 1995 as compared to \$5,401 million in 1994 and \$5,276 million for 1993. The \$26-million decrease was primarily due to the inclusion of a \$160-million contract-termination settlement payment in the 1993 and 1994 revenue. See Note 9 of "Notes to Financial Statements" in the Financial Statements. Excluding this 1994 payment, operating revenue increased \$134 million between 1995 and 1994. This increase was primarily due to an increase in kWh sales of approximately 6 billion (5 percent), from 128 billion in 1994 to 134 billion in 1995. The increase in kWh sales for 1995 resulted from growth within the municipalities and cooperatives and federal agencies segments. The increase in kWh sales, however, was offset by a decrease in the revenue per kWh of approximately 1 mill (2.2 percent) from 40.3 mills in 1994 to 39.4 mills in 1995. The decrease in revenue per kWh was primarily due to a change in sales mix and continued economic-pricing options for customers.

The increase in kWh sales was approximately 4 billion (3 percent), from 124 billion in 1993 to 128 billion in 1994. The impact of mild summer temperatures in 1994 was offset by overall sales growth of 3.4 percent. This growth was due to a contractual change with another federal agency and an overall growth in municipality and cooperative sales. A winter peak demand record of 24,723 megawatts ("MW") was set January 18, 1994, when temperatures were in single digits.

Operating Expenses

Operating expenses for fiscal 1995 were \$3,448 million, compared with \$3,461 million for 1994 and \$3,269 million for 1993. Fuel and purchased power expenses were \$1,443 million for 1995 compared with \$1,493 million for 1994 and \$1,401 million for 1993.

In 1995, fuel and purchased-power expense decreased \$50 million or 3 percent from 1994. However, excluding a change in methods of accounting for nuclear fuel (see explanation below), fuel and purchased-power expense increased \$38 million or 2.7 percent due to a 4.2 percent increase in kWh generated. Fuel costs did not increase in proportion to generation, primarily due to favorable coal prices.

The 1994 operating expenses included about \$88 million of nuclear fuel expense, which was excluded from the 1995 operating expenses due to a determination at the end of 1994 that the excess capitalized interest portion of nuclear fuel should be reclassified from nuclear fuel inventory to other deferred charges and amortized on a straight-line basis over an eight-year period. See Notes 1 and 2 of “Notes to Financial Statements” in the Financial Statements.

Operating and maintenance costs decreased \$31 million from \$1,081 million in 1994 to \$1,050 million in 1995. The decrease was primarily due to reduced labor expense resulting from the voluntary early-out package exercised by employees during fiscal year 1995.

Depreciation and amortization expense was \$703 million and \$639 million in 1995 and 1994 respectively. The increase during 1995 of \$64 million was primarily due to depreciation on about \$1.7 billion of construction projects that were completed and placed in service during 1995.

The 1994 operating expenses, compared with 1993, increased \$192 million. The increase was primarily attributable to an increase in depreciation and amortization from the amortization of deferred charges, additions to completed plant, and an increase in the composite depreciation rate.

Financial Condition

Liquidity and Capital Resources

TVA’s power program is required to be self-supporting from revenues it produces and capital it raises in public markets. As the TVA Act does not authorize TVA to issue equity securities, TVA raises its capital requirements through the internal generation of funds or through borrowings subject to a congressionally mandated \$30-billion limit. Historically, TVA has accessed both the federal and public bond markets; since 1989, all capital needs have been met through issuances in the public sector.

The 1996 expected completion of Watts Bar Unit One and the restart of Browns Ferry Unit Three will significantly reduce TVA’s future capital requirements. The planned reduction in capital expenditures has led TVA to self-impose an internal debt ceiling of about \$28 billion. During 1995 and 1994, TVA generated cash flow from operations of \$802 million and \$1,144 million respectively. The decrease in cash flow from operating activities of \$342 million from 1994 to 1995 was primarily due to a \$141-million reduction in net income in 1995 and fewer noncash expenses totaling \$208 million. New borrowings are estimated to be \$650 million for fiscal 1996 and \$100 million for fiscal 1997. Borrowings for subsequent years are dependent upon the level of capital expenditures and are under review by the Board. For capital requirements met by internally generated funds, see “Statements of Cash Flows” in the Financial Statements.

Financing Activities

Long-term debt and cash from operations are used to finance capital expenditures. Short-term debt and cash from operations are used to manage daily cash needs. In 1995 TVA issued \$3.5 billion in long-term bonds. Of the proceeds from the 1995 offerings, \$2.5 billion were primarily used to refinance existing debt and \$1 billion was used to finance capital expenditures.

The expected reduction in capital expenditures, the self-imposed debt limit, and the expanding borrowing base will allow TVA to continue to effectively manage its capital requirements for the foreseeable future.

THE AREA SUPPLIED BY TVA

TVA supplies power in most of Tennessee, northern Alabama, northeastern Mississippi, and southwestern Kentucky, and in small portions of Georgia, North Carolina and Virginia. The population of the area served by TVA is over 7 million. Subject to certain minor exceptions, TVA may not without specific authorization by Act of Congress enter into contracts which would have the effect of making it or its distributors a source of power supply outside the area for which TVA or its distributors were the primary source of power supply on July 1, 1957.

TVA is primarily a wholesaler of power. Its customers are composed of three major groups: (1) distributors, consisting of municipal and cooperative systems; (2) industries which have large or unusual loads; and (3) federal agencies. In addition, TVA has entered into exchange power arrangements with most of the surrounding electric systems.

RATES, CUSTOMERS AND MARKET

The Act delegates to the Board sole responsibility for establishing the rates which TVA charges and authorizes it to include in power contracts such terms and conditions as in its judgment may be necessary or desirable for carrying out the purposes of the Act. The Act requires the Corporation to charge rates for power which, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states and counties in lieu of taxes; debt service on outstanding Evidences of Indebtedness, including provision and maintenance of reserve funds and other funds established in connection therewith; and annual payments to the Treasury in repayment of and as a return on the Government's appropriation investment in TVA power facilities. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Rate Covenant". Rates set by the Board are not subject to review or approval by any state or federal regulatory body.

A summary of power program operating revenues by customer groups for each of the last five fiscal years ended September 30 is shown in the Comparative Five-Year Data, presented on page F-20.

Municipal and Cooperative Distributors

TVA has entered into wholesale power contracts with 160 municipal and cooperative distributors. Such contracts are for terms of 20 years, require distributors to purchase substantially all of their electric power and energy requirements from TVA, and (except for those with two small distributors, providing less than one percent of revenues) require 10 years' notice to terminate the contract and further provide that on each annual anniversary of the contract (beginning with the tenth anniversary) one additional year is automatically added to the term. The remaining two small distributors continue to operate under the original term provisions. Municipal and cooperative distributors accounted for approximately 88 percent of total power revenues in fiscal 1995.

The contracts contain standard provisions specifying the wholesale rates, resale rates and terms and conditions under which the power is to be distributed. Under the contracts, TVA, on a quarterly basis, may determine and make adjustments in the wholesale rate schedule with corresponding adjustments in resale rate schedules necessary to enable TVA to meet all requirements of the Act and the tests and provisions of its bond resolutions. In addition, the contracts provide for agreement between the parties on general or major changes in both the wholesale and resale rate schedules, and permit TVA, if agreement is not reached, to make changes in such schedules to carry out the objectives of the Act, to meet financial requirements and tests, and to comply with the provisions of its bond resolutions.

The resale rates under which the distributors serve ultimate consumers are stipulated in the power contracts between the distributors and TVA and are revised from time to time to reflect changes in costs, including changes in the wholesale cost of power. They are designed to promote the Act's objective of providing an adequate supply of power at the lowest feasible rates.

Industries and Federal Agencies Served Directly

Contracts with industries served directly by TVA normally are for terms of 10 years but are subject to termination by TVA or the customer upon a minimum notice period that varies according to the customer's contract demand and the period of time service has been provided at that location. Industries directly served accounted for approximately 9 percent of power revenues in fiscal 1995. The power sold directly to industries is delivered under contracts at rates established by TVA. Such rates are the same as those charged by distributors to large industries (those with demand greater than 25,000 kilowatts ("kW")) they serve. Power is sold to federal agencies under the same contract terms and rates as directly served industries.

COMPETITION

The electric utility industry has become increasingly competitive in the past decade. Competition is expected to intensify in the future as a result of federally encouraged deregulation of utilities affecting the wholesale power markets and various provisions of the Energy Policy Act of 1992 ("Energy Act"). Chief among the provisions of this act which will further intensify the competitive environment are amendments (1) to the Federal Power Act that give the Federal Energy Regulatory Commission ("FERC") greater authority to order electric utilities with transmission lines to wheel (transmit) power over their systems for electric power generating entities; and (2) to the Public Utility Holding Company Act of 1935 that allow the creation of certain kinds of power generating entities without the entities or their parent corporations being made subject to regulation by the Securities and Exchange Commission under that act.

Nevertheless, a special provision in the Energy Act prevents the new wheeling authority of the FERC from being used to provide TVA-served municipal and cooperative distributors with an alternative source of power supply. That provision excludes from the new wheeling authority the wheeling of electric energy that will be consumed within the area served by TVA and the distributors (except for Bristol, Virginia).

Although other power suppliers, under certain circumstances, may sell power in the area where TVA power is distributed, there are statutory provisions restricting TVA from expanding the area in which it is a source of power supply. It is important that TVA market power at rates competitive with other suppliers in the region. TVA believes that its nine years of stable rates have assisted distributors of TVA power in competing for new commercial and industrial loads.

In today's competitive environment, some of the municipal and cooperative distributors may consider alternative wholesale supply arrangements upon expiration or termination of their power contracts with TVA. Two distributors, representing one percent of TVA revenues, have provided TVA with notices of power contract termination to permit them to study alternative power supply arrangements. One of these distributors, 4-County Electric Power Association, has subsequently brought litigation seeking to obtain participation in TVA's Growth Credit Program. An alternative mentioned in the complaint is that the distributor could be released from its power contract. In TVA's opinion, there is little likelihood that the distributor will prevail in this case.

TVA's management is developing plans and strategies that will position TVA to successfully compete in a deregulated electricity market both within the Tennessee Valley and nationwide.

In April 1995, Palmer Bellevue, a consultant serving the electric utility industry, issued a report on TVA's competitive position. This report concludes that TVA is well positioned to meet competitive challenges as the electric utility industry prepares for future deregulation and that TVA's capital structure supports a comparable level of generating assets compared to investor-owned utility competitors. In August 1995, U.S. General Accounting Office ("GAO") issued a report which, among other things, focused on TVA's level of debt, rates, competitive position and deferred nuclear assets. The report raises the issue of whether TVA will be able to recover all the costs of its deferred nuclear assets and the financial and competitive impact this would have. While the GAO is authorized to assist the Congress by evaluating government programs and activities and may make recommendations in this regard, it has no authority to order or direct that any action be taken. The report relating to TVA does not make any specific recommendations. TVA furnished to GAO a detailed response as to why the report is flawed in its analysis. GAO included TVA's response in the report appendix.

The Chairman of the Board has publicly commented that, in view of the approaching deregulation of the electric power industry and an era of open-market competition, TVA is looking into the expansion of services offered and a broadening of the area it serves. He pointed out that careful consideration would be given before proposing any specific legislation for removing TVA's territorial limitations. In preparation for meeting competition in the changing electric utility industry, the Chairman also has called for an examination by the TVA staff of TVA's relationship with 160 distributors of TVA power. He has asked that a number of items be examined, including whether alternative contractual arrangements relating to services and pricing structures should be developed, in preparing for an entirely new operating environment.

POWER AND ENERGY REQUIREMENTS

TVA prepares annual forecasts of future power and energy requirements as part of its planning and budgeting process. TVA's forecast procedure involves producing a range of load forecasts for the explicit purpose of bounding the range of uncertainty associated with load growth. The load forecasts are produced probabilistically. TVA believes that the high load forecast has a 90 percent probability that actual load will be less than forecast, that the medium load forecast has a 50 percent probability that actual load will be less than forecast, and that the low load forecast has a 10 percent probability that actual load will be less than forecast. TVA's current load forecast through fiscal year 2000 reflects an average annual load growth rate of 3.4 percent, 2.2 percent, and 0.0 percent for the high, medium, and low load forecasts, respectively. TVA's total system energy requirements through fiscal year 2000 reflects an average annual growth rate of 4.1 percent, 2.6 percent, and 0.2 percent for the high, medium, and low load forecasts, respectively.

Various provisions in the Energy Act make changes in a wide range of laws affecting energy use and development in the United States. In addition to various other features, some of which are discussed herein, this act establishes a statutory framework for how TVA plans and selects methods for meeting future energy needs.

CAPITAL EXPENDITURES

Cash required by TVA for capital expenditures totaled \$1.7 billion, \$2.0 billion and \$2.1 billion for fiscal years 1995, 1994 and 1993, respectively. TVA's current forecast for capital expenditures totals \$1.1 billion for fiscal year 1996 and \$900 million for each of fiscal years 1997 and 1998. TVA estimates that it will borrow approximately \$650 million for fiscal year 1996 and \$100 million in 1997.

TVA's construction program and related expenditures are continuously reviewed and periodically revised because of changes in estimated system load growth, rates of inflation, nuclear licensing requirements and schedules, the availability and timing of environmental, siting and other regulatory approvals, the scope of modifications required by regulatory agencies, including the Nuclear Regulatory Commission (the "NRC"), the availability and costs of external sources of capital and other factors beyond TVA's control. See "Nuclear Power Program" for assumed nuclear plant startup dates used for planning purposes.

POWER SYSTEM

TVA's power generating facilities at December 31, 1995, included 29 hydroelectric plants, 11 coal-fired plants, 2 nuclear plants, 1 pumped storage hydroelectric plant and 4 gas turbine plants. Power is delivered to TVA customers over a transmission system of approximately 16,800 miles of lines, including 2,400 miles of extra-high-voltage (500,000 volt) transmission lines. The system interconnects with neighboring power systems at numerous points, and TVA has various types of interchange arrangements with these systems. The extent and types of interchange transactions depend upon the characteristics of the systems' loads, the management policies of the systems and other factors. Interchange arrangements are an essential part of TVA's efforts to minimize investment in electrical facilities, increase the reliability of service, effect operating economies and minimize the cost of electric energy. Three subsidiaries of The Southern Company, which have interchange arrangements with TVA, have filed suit asking the court to prohibit TVA from contracting to sell or deliver electric power to LG&E Power Marketing, Inc., or to any other entities, whereby such electric power would be utilized by those organizations to facilitate electric power transactions they may have with others located outside the area that TVA serves under the TVA Act. In TVA's opinion, transactions under interchange arrangements with LG&E Power Marketing, Inc., and with other organizations with which TVA has such contractual arrangements, are authorized under the TVA Act, and there is little likelihood that plaintiffs will prevail in this case.

During the fiscal year ended September 30, 1995, 71 percent of the power generated by the TVA coordinated system was by fossil fired plants, 12 percent by hydro, and 17 percent by nuclear. Coal consumption during this time was 39.3 million tons. Coal is purchased under contracts ranging from a single delivery to deliveries over several years. Management believes the sources and availability of fuel materials

essential to its business should be adequate for the foreseeable future. TVA coal inventory levels vary from plant to plant based upon a simulated inventory model. As of September 30, 1995 TVA had approximately 18 days' coal supply in inventory at full burn.

TVA's power system is one of the largest in the Nation in capacity and in energy production. Its size permits the construction of large facilities which result in lower unit costs. Most of TVA's dams were completed years ago when construction costs were far below present-day levels. Because most of the dams are multipurpose, their cost is shared by navigation, flood control, recreation and local economic development, as well as by power; thus, each purpose is served at a substantially lower cost than if the dams had been built for a single purpose.

A bill has been introduced in the Senate which would eliminate the permanent authorization of TVA's appropriations and would require the development of a plan describing which TVA programs should be continued, discontinued, or transferred. Another bill has been introduced in the House of Representatives which would direct the President to develop a plan for transferring all TVA property to public or private entities. This is the same bill which was introduced in the last Congress and died without any action. Neither bill was scheduled for hearings or other congressional consideration in the first session of this Congress. Enactment of either of these, or of similar bills, is considered highly unlikely. The President's proposed budget for fiscal year 1996 recommended the privatization of four Department of Energy power marketing administrations, but it did not recommend any privatization actions for TVA. Congress decided not to take action on the President's or other proposals to privatize the power marketing administrations or their Corps of Engineers water projects.

Generating Resources

The following table summarizes the winter net dependable capacity ("NDC") on this coordinated system as of December 31, 1995:

	Generating Units	Winter NDC MW(1)
TVA Hydro Plants	109	2,970
TAPOCO Hydro Plants		318
Corps of Engineers Hydro Plants.....	—	405(2)
TVA Pumped Storage Facility.....	4	<u>1,532</u>
Total Hydro		5,225
Coal	59	15,032
Nuclear	4	4,407
Combustion Turbine	48	<u>2,232</u>
Total NDC		<u>26,896</u>

- (1) NDC as stated is the net power output which can be obtained for a period adequate to satisfy the daily load patterns under expected conditions of winter operation with equipment in an average state of maintenance. For planning purposes, TVA currently estimates summer dependable total hydro capacity of approximately 5,666 MW; coal-fired capacity of approximately 14,685 MW; nuclear power capacity of approximately 4,347 MW; and combustion turbine capacity of approximately 1,936 MW, for a total summer NDC of approximately 26,634 MW.
- (2) The Corps of Engineers' plants on the Cumberland River System have a total installed capacity of 853 MW, of which 405 MW of NDC is available to TVA under a marketing agreement with Southeastern Power Administration.

Under arrangements among TVA, the United States Corps of Engineers (the "CORPS") and the Southeastern Power Administration (the "SEPA"), 8 hydro plants of the CORPS comprising the Cumberland River system are operated in coordination with the TVA system. These arrangements further provide for

capacity (405 MW) and energy from the Cumberland River system to be supplied to TVA by SEPA at the points of generation, and the price paid for the power to be based on the operating and maintenance expenses and amortization of the power facilities. A portion of the output of the Cumberland River system is also made available to SEPA's customers outside the TVA region. The agreement with SEPA covering these arrangements for power from the Cumberland River system can be terminated upon three years' notice.

Integrated Resource Plan

In 1993 TVA began development of an Integrated Resource Plan ("IRP") to be utilized in determining its strategy for meeting future customer energy demands. TVA initiated the IRP process in February 1994 and released a draft plan for public comment in July 1995. The IRP was completed in December 1995 and has been approved by the Board. It identifies a 25-year least-cost energy resource strategy for TVA's power system. TVA's IRP strategy relies on a portfolio of energy resource options that made up the best seven energy resource strategies evaluated for the TVA power system. These strategies performed well across all of the IRP evaluation criteria including debt, rates, costs, reliability, and environmental impacts. These options provide TVA the flexibility to respond to forecasted future demands on the system of 16,500 MW in a manner that maintains and enhances its competitive position. Included in the portfolio are customer service options (*e.g.* energy conservation, load management, beneficial electrification) and supply side options (the purchase of call options which give TVA the right to purchase power from other power producers in the future, the investigation and use of renewable energy technologies such as cost-effective biomass and wind turbines, and combined-cycle repowering of some existing coal-fired units). Other IRP results are set forth in the "Nuclear Power Program" section.

NUCLEAR POWER PROGRAM

Overview

TVA began an ambitious nuclear plant construction program in 1966 to meet projected system load growth. At the height of the construction program, TVA had 17 nuclear units either under construction or in commercial operation at seven plant sites. Between 1982 and 1984 TVA canceled construction of eight units because of lower-than-expected load growth. Total investment in the eight units at the time of cancellation was \$4.6 billion. Almost all of this amount had been written off by September 30, 1990.

In 1985, TVA delayed completion of its Watts Bar units and shut down its Browns Ferry and Sequoyah units because of an increasing number of technical and operation problems. Construction activities at TVA's Bellefonte Unit Two and Unit One were deferred in 1985 and 1988, respectively, due to reductions in forecasted load growth. After making extensive changes and improvements to the plants and restructuring its management organization, TVA returned Sequoyah Units One and Two to commercial operation in 1988, Browns Ferry Unit Two to commercial operation in 1991 and Browns Ferry Unit Three to commercial operation in January 1996, and anticipates bringing Watts Bar Unit One to commercial operation later in 1996. Completion activities at Browns Ferry Unit One, Watts Bar Unit Two and Bellefonte Units One and Two have been suspended.

Because of extensive regulatory requirements and the resulting delays which are often very lengthy, estimates of the cost to complete nuclear plants have typically been unreliable. No assurance can be given that the cost estimates discussed below would not be changed significantly.

Sequoyah

Sequoyah is a two-unit plant located approximately 7.5 miles northeast of the city limits of Chattanooga, Tennessee, with pressurized water reactors supplied by Westinghouse Electric Corporation. The units are rated at 1,141 and 1,136 MW net electrical output for Unit One and Unit Two, respectively. TVA received an Operating License for Unit One in 1980, and the unit began commercial operation in 1981. TVA received an Operating License for Unit Two in 1981, and the unit began commercial operation in 1982. The Operating

Licenses expire 40 years after issuance. The plant was designed, built and is operated by TVA. TVA voluntarily shut down both units in 1985 in response to technical and operational concerns.

Both Sequoyah units returned to commercial operation in 1988 and were removed from the NRC's list of plants that require close monitoring in 1989. Since their return to service in 1988 Sequoyah Units One and Two have recorded a 64.0 percent and 66.5 percent equivalent availability through September 1994 and a 66.9 percent and 68.2 percent equivalent availability through September 1995. The "equivalent availability" is the ratio of the energy a unit could have generated, if called on, to the energy the unit would have produced if it had run at full load over the entire period, expressed as a percentage.

Browns Ferry

Browns Ferry is a three-unit plant located approximately 10 miles southwest of Athens, Alabama, with boiling water reactors supplied by General Electric Company. Each unit is rated at 1,065 MW net electrical output. The plant was designed, built and is operated by TVA. TVA received Operating Licenses for Units One, Two, and Three in 1973, 1974 and 1976, respectively. They began commercial operation in 1974, 1975 and 1977, respectively. The Operating Licenses for these units expire 40 years after issuance. Units One, Two and Three were voluntarily shut down by TVA in 1985 in response to technical and operational concerns.

Browns Ferry Unit Two was returned to commercial operation in 1991 and was removed from the NRC's list of plants requiring continued close monitoring in 1992. Since its return to service in 1991 Browns Ferry Unit Two has recorded a 79.9 percent equivalent availability factor through September 1994 and an 80 percent equivalent availability through September, 1995.

Browns Ferry Unit Three was restarted in November 1995 and returned to commercial operation in January 1996. Browns Ferry Unit Three will remain on the NRC's list of plants that require close monitoring until a period of sustained successful performance is achieved.

Browns Ferry Unit One has been idled since March 1985. Major modifications are required to bring the plant to current standards. Total investment in Unit One at September 30, 1995, was \$700 million, including capitalized interest. Preliminary cost estimates indicate that cost associated with returning Unit One to service would be between \$1.2 and \$3.2 billion at September 30, 1995. See "Nuclear Completion Schedules and General Needs" for discussion of the status of Browns Ferry Unit One.

Watts Bar

Watts Bar is a two-unit power plant located approximately 50 miles northeast of Chattanooga, Tennessee, with pressurized water reactors supplied by Westinghouse Electric Corporation. Each unit is rated at 1,160 MW net electrical output. The plant was designed and has been built to its present level of completion by TVA. The Construction Permit for Unit Two expires in December 1999.

Although physical construction of Watts Bar Unit One was substantially complete in 1985, efforts to obtain an operating license were delayed due to numerous safety concerns expressed by Watts Bar workers. TVA performed a series of evaluations and developed comprehensive corrective actions to address all safety concerns. Overall plant design was reverified and extensive plant modifications were made to ensure that the plant was designed and constructed in accordance with regulatory requirements and TVA's commitments.

Hot functional testing of Watts Bar Unit One began April 1, 1994 and on May 15, 1994, the generator was synchronized to the power system and supplied five MWs of power to TVA customers for a short period of time. Unresolved items from the 1994 hot functional testing were resolved during additional testing completed in August 1995. In November 1995, the NRC granted a license authorizing TVA to load fuel in Unit One and begin operations up to five percent of rated power. In February 1996, the NRC granted Unit One a license to operate at full power. TVA intends to begin commercial operation in calendar year 1996. Total investment in Unit One at September 30, 1995, was \$6.9 billion, including capitalized interest. Anticipated cost to begin commercial operation is currently estimated to be \$150 million, excluding capitalized interest. Assurance cannot be given that this estimate will not be changed significantly.

In 1988, TVA suspended construction activities at Watts Bar Unit Two because of a reduction in the forecasted load growth. Total investment in Unit Two at September 30, 1995, was \$1.7 billion, including capitalized interest. Preliminary cost estimates indicate that cost associated with returning Unit Two to service would be between \$1.1 and \$2.9 billion at September 30, 1995. See “Nuclear Completion Schedules and General Needs” for discussion of the status of Unit Two.

Bellefonte

Bellefonte is a two-unit power plant located approximately 59 miles southwest of Chattanooga with pressurized water reactors supplied by Babcock & Wilcox Company (“B&W”) rated at 1,212 MW net electrical output each. The plant was designed and has been built to its present level of completion by TVA. Construction Permits were obtained from the NRC for both units in December 1974.

TVA deferred construction activities on Unit Two at Bellefonte because of a reduction in forecasted load growth in October 1985. Construction activity was deferred on Unit One in July 1988, and TVA notified the NRC of this action in accordance with the NRC’s October 1987 Policy Statement on Deferred Nuclear Plants. On March 23, 1993, in accordance with guidance in the NRC’s policy statement, TVA notified the NRC of its plans to resume completion activities at Bellefonte. Construction Permits for Unit One and Unit Two have been extended by the NRC to 2001 and 2004, respectively.

As of September 30, 1995, TVA had \$4.6 billion, including capitalized interest, invested in these units. See “Nuclear Completion Schedules and General Needs” for discussion of Bellefonte’s current status. Preliminary cost estimates indicate that cost associated with completing the Bellefonte units would be between \$1.3 and \$3.5 billion for Unit One and \$900 million and \$2.4 billion for Unit Two at September 30, 1995.

Nuclear Completion Schedules and General Needs

Recent preliminary cost estimates, utilizing the IRP (see “Power System” — “Integrated Resource Plan”), show that completing the units at Bellefonte and Watts Bar Unit Two could cost between \$3.3 and \$8.8 billion, which indicates that their completion may not be economically feasible. As a result, the Board in December 1994 announced a major change in policy declaring that TVA will not, by itself, complete Bellefonte Units One and Two and Watts Bar Unit Two as nuclear units. TVA’s IRP identified as a viable option the conversion of the Bellefonte facility to a combined cycle plant utilizing natural gas or gasified coal. A feasibility study performed by an outside team of technical and financial experts is expected to be completed in early 1997. With implementation of the IRP the TVA Board will consider alternatives, including converting the units to another fuel source or completing them with a partner. The IRP also concluded that Watts Bar Unit Two should remain in deferred status until completion of the Bellefonte study. In addition, the IRP recommended that Browns Ferry Unit One continue in its inoperative status. The impact on TVA’s financial position of completing, converting, or joint venturing these units will be determined upon completion of the Bellefonte study.

At September 30, 1995, TVA’s total investment in Bellefonte Units One and Two, Watts Bar Unit Two and Browns Ferry Unit One (including nuclear fuel) was \$6.3 billion. The future decisions on these units will ultimately impact the method of cost recovery, and the TVA Board has determined that it will, at that time, establish rate adjustments and operating policies to ensure full recovery of the cost of these units and compliance with the requirements of the TVA Act.

Nuclear Fuel

TVA owns all nuclear fuel held for its nuclear units (operating, under construction, and deferred). The net book value of such fuel was \$957 million as of September 30, 1995. See Notes 1 and 2 of “Notes to Financial Statements” in the Financial Statements. TVA currently has sufficient inventory to last until 1999.

TVA’s investment in the fuel being used in the Sequoyah units and Browns Ferry Unit Two is being amortized and accounted for as a fuel expense. The Bellefonte initial cores have been defabricated. The

uranium from these cores is being used in the Sequoyah and Browns Ferry units and will continue to be used in these units in the near future and the net book value will be assigned accordingly.

Nuclear Waste

Spent Nuclear Fuel

The Nuclear Waste Policy Act of 1982 (the “NWPA”) provides that the federal government has the responsibility for the permanent disposal of spent nuclear fuel, but charges each nuclear power system with the responsibility for the cost of such permanent disposal. The NWPA requires each nuclear power system to enter into a disposal contract with DOE for such material. The contract requires each nuclear power system to pay a fee which is currently one mill per kWh for the net electricity generated and sold by each of its reactors. TVA’s spent fuel efforts will ensure that sufficient cost-effective at-reactor storage is available to meet all of TVA’s spent fuel storage requirements until DOE is prepared to accept TVA’s spent fuel.

TVA presently has the capability to store its spent fuel at Sequoyah and Browns Ferry through the years 2004 and 2007, respectively. Based on a one unit operation, Watts Bar storage capability will be sufficient until 2018. TVA plans to extend storage capability through life-of-plant by using higher density racks in its existing storage pools, fuel rod consolidation or dry storage casks.

Low-Level Radioactive Waste

Disposal costs for low-level radioactive waste that result from normal operation of nuclear units have increased significantly in recent years and are expected to continue to rise. Pursuant to the Low-Level Radioactive Waste Policy Act, each state is responsible for disposal of low-level waste generated in that state. States may form regional compacts to jointly fulfill their responsibilities. The States of Tennessee and Alabama (where TVA nuclear plants are located) have joined with six other southeastern states to form the Southeast Compact Commission for Low-Level Radioactive Waste Management. This commission regulates the siting of new disposal facilities and the disposal of low-level waste within the southeastern states.

Until July 1995, the low-level waste generators located in the eight Southeastern states were required to dispose of their waste at the Barnwell, South Carolina disposal facility. In July, South Carolina withdrew from the Southeast Compact Commission in order to open the Barnwell facility to all states except North Carolina. The states participating in the Southeast Compact Commission have selected North Carolina as the host state to select, license, and construct a new disposal site. TVA plans to continue to use the Barnwell facility for low-level radioactive waste disposal until the North Carolina facility is opened. Should either or both of the disposal facilities close unexpectedly, low-level radioactive waste will be stored in on-site facilities at the TVA nuclear plants. These facilities are sized to handle any anticipated storage needs for the foreseeable life of the plants.

Nuclear Insurance

The indemnification and limitation of liability plan afforded the United States nuclear industry by the Price-Anderson Act was extended for an additional 15 years in 1988, with certain provisions of the Price-Anderson Act now due to expire on August 1, 2002. The 1988 amendments and the 1993 inflation adjustment to the Price-Anderson Act substantially increased the limit of liability from an accident at an NRC-licensed reactor, and this amount is now approximately \$8.9 billion, composed of primary and secondary layers of financial protection. For further information about this nuclear liability insurance and its deferred premium see Note 10 of “Notes to Financial Statements” in the Financial Statements. TVA, in accordance with industry practice, maintains certain liability insurance coverage for workers at the nuclear sites.

NRC regulations require nuclear power plant licensees to obtain, and TVA has acquired, onsite property damage insurance coverage of \$1.06 billion per nuclear site. Some of the nuclear property insurance may require the payment of retrospective premiums of up to approximately \$40 million in the event that losses by another insured party or TVA exceed available funds. In accordance with NRC regulations, the proceeds of nuclear property insurance are used first to ensure that the reactor is in safe and stable condition and that it

can be maintained in a condition that prevents significant risk to the public. Next, the proceeds go for decontamination or, if necessary, decommissioning the reactor. Any excess proceeds insure against casualties to property.

Decommissioning

Provision for decommissioning costs of nuclear generating units is based on the estimated cost using the dismantling/removal method. The amount stated in 1994 dollars for Browns Ferry is \$800 million and \$490 million for Sequoyah. The excess of the annual decommissioning provision over earnings from any investments designated for funding decommissioning costs is charged to depreciation expense. The book value of TVA's decommissioning fund investments was \$260 million at September 30, 1995.

ENVIRONMENTAL MATTERS

TVA's activities are subject to various federal, state, and local environmental statutes and regulations. Major areas of regulation affecting TVA's activities include air pollution control, water pollution control, and management and disposal of solid and hazardous wastes. Because TVA is a federal agency, it is subject only to those state and local environmental requirements for which Congress has clearly waived federal agency immunity. Respecting the major environmental areas (air, water and waste), limited waivers have been enacted by Congress. TVA's activities may also be subject to other narrower environmental requirements or to environmental requirements which affect only federal activities.

TVA has incurred and continues to incur substantial capital expenditures and operating expenses to comply with environmental requirements. Because of the continually changing nature of these requirements, the total amount of these costs is not now determinable. It is anticipated that environmental requirements will become more stringent and that compliance costs will increase, perhaps by substantial amounts.

Air Pollution

Under the Clean Air Act, the United States Environmental Protection Agency (the "EPA") has promulgated national ambient air quality standards for certain air pollutants, including sulfur dioxide, particulate matter and nitrogen oxides. Coal-fired generating units are major sources of these pollutants. TVA also operates other smaller sources. The States of Alabama and Tennessee and the Commonwealth of Kentucky have promulgated implementation plans which regulate sources within their boundaries, including TVA sources, in order to achieve and maintain the national ambient standards. TVA has installed control equipment and employs control strategies to comply with applicable state-established emission limitations. TVA estimates that it spent about \$1.4 billion in capital costs on air pollution control activities prior to the 1990 Clean Air Act Amendments.

The acid rain control provisions of the 1990 Amendments to the Clean Air Act establish a number of new requirements for utilities. These requirements will be implemented by EPA and the states in two phases. TVA's Phase 1 affected units were brought into compliance at a capital cost of approximately \$710 million (exclusive of overhead and interest expenses). Phase 2 requirements have not been fully established by the U.S. Environmental Protection Agency, but TVA's current Phase 2 compliance strategy would result in capital costs of approximately \$1.3 billion.

Other 1990 amendments may affect the air pollution control requirements that are applicable to TVA's fossil plants. States and EPA are considering how the long-range transportation of both nitrogen oxide, which contributes to the formation of ozone, and ozone may contribute to violations of the ozone ambient air quality standard in downwind states. EPA is also considering making the current ozone ambient standard more stringent. These actions may lead to additional reductions of utility nitrogen oxide emissions beyond those required by the acid rain provisions of the 1990 amendments. The costs for such additional reductions are unknown at this time but would likely be substantial.

The ozone ambient standard was recently exceeded in the Memphis area and this has triggered the Memphis-Shelby County ozone maintenance-contingency plan. Under this contingency plan, sources of

nitrogen oxides within Shelby County will be required to further reduce emissions. TVA's Allen Fossil Plant is expected to be affected by this. The costs of this are uncertain, but are not expected to be substantial.

Water Pollution

Under the Clean Water Act, every point source which discharges pollutants into navigable waters must obtain a National Pollutant Discharge Elimination System ("NPDES") permit specifying the allowable quantity and characteristics of the pollutants discharged. TVA's various point sources have received NPDES permits, including all of its major generating units. Compliance with NPDES requirements has necessitated substantial expenditures and may require additional, substantial expenditures in the future as NPDES permits come up for renewal and applicable requirements are made more stringent. State implementation of EPA's new stormwater regulations is resulting in revised monitoring requirements for TVA's NPDES permits and could eventually result in new discharge limits.

The Clean Water Act allows the permitting authority to establish thermal limits less stringent than the water quality criteria if the discharger can demonstrate that the alternate limit will assure protection and propagation of a balanced, indigenous aquatic population. TVA has now been issued alternate limits at several of its facilities, and it is meeting these limits.

Solid and Hazardous Waste Management

Under the Resource Conservation and Recovery Act ("RCRA"), the storage, transportation, and disposal of hazardous wastes are regulated by EPA and the states. RCRA also allows EPA and the states to regulate solid wastes and the states have detailed permitting programs for this. TVA has detailed procedures in place that comply with all applicable requirements for the management of hazardous wastes. In addition, TVA has instituted an approved supplier list for hazardous waste disposal contractors under which such contractors' financial status, compliance history, and physical facilities and operations are reviewed before they are allowed to treat or dispose of any of the hazardous wastes generated by TVA facilities. TVA does not itself operate any hazardous waste disposal or treatment facilities but does operate one permitted hazardous waste storage facility in Muscle Shoals, Alabama. TVA has obtained or is in the process of obtaining solid waste disposal permits for the solid waste disposal areas (e.g. fly ash, scrubber sludge, demolition materials and asbestos) it operates at some of its plant sites. TVA's costs in this area have not been substantial but applicable requirements are constantly changing and are expected to become more stringent.

Under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), the release and cleanup of hazardous substances are regulated. Certain persons who are associated with the release of hazardous substances to the environment can be held responsible for their cleanup, regardless of when the substances were released or when the specific person may have been associated with the substance. This liability under CERCLA is generally viewed as joint and several. TVA, in a manner similar to other industries and power systems, has generated or used hazardous substances over the years. In connection with these activities, TVA has been identified as a potentially responsible party with respect to three non-TVA sites at which TVA hazardous substances were disposed and which have not yet been resolved. In addition, TVA is currently investigating two other sites at which TVA is either an owner or a partial owner and for which TVA may have cleanup responsibilities by virtue of its control of the property. TVA's potential liabilities for its share of cleanup costs at these sites are uncertain but in total should be less than \$10 million.

Miscellaneous

Polychlorinated biphenyls ("PCBs") have been widely used as insulating fluids in electric equipment (e.g., transformers and capacitors). Use of such equipment and the cleanup of released PCBs are regulated by EPA under the Toxic Substances Control Act. The TVA power system uses thousands of pieces of equipment which contain some level of PCBs. Most of this equipment can continue to be operated under EPA's PCB regulations for the remainder of its useful lives, but TVA is phasing out much of this equipment as a matter of policy. The cost of phasing out all of this equipment would exceed \$100 million (equipment replacement and disposal costs) but cannot be accurately determined at this time. TVA has in place detailed procedures to conform its operations to EPA's PCB regulations, and it has not incurred substantial costs in this area.

Many of TVA's facilities were constructed at a time when asbestos was the insulation of choice by industry. Asbestos materials now require special handling and disposal when they are removed. Although not required, TVA is removing or encapsulating asbestos as appropriate.

There is a growing public concern about whether there are adverse health effects from exposure to electric and magnetic fields ("EMF"). There are many sources of EMF, including electric transmission lines. Although there is no conclusive evidence that EMF causes adverse health effects, research in this area continues. Substantial costs could be incurred by electric systems, including TVA, if EMF levels from transmission lines have to be reduced.

As a federal agency, TVA is required to consider the potential environmental effects of major federal actions affecting the quality of the human environment under the National Environmental Policy Act (the "NEPA") and implementing regulations and to make these evaluations available to the public. TVA has incorporated the NEPA review process into its decision making process. NEPA-related costs are incurred continuously but not in substantial amounts.

INSURANCE

TVA does not generally carry property damage or public liability insurance except as may be required or appropriate with respect to nuclear facilities and except to the extent it may do so as part of an owner-controlled insurance program it has implemented for some large contracts requiring on-site labor. Liability for service-connected injuries to employees is governed by the Federal Employees' Compensation Act. See "Nuclear Power Program" — "Nuclear Insurance" herein and Note 10 of "Notes to Financial Statements" in the Financial Statements for additional information with respect to insurance.

MANAGEMENT

TVA is administered by a board of directors composed of three persons appointed by the President and confirmed by the Senate. The Board and selected officers, their ages, their years of employment with TVA and principal occupations for recent years are as follows:

<u>Name and Title</u>	<u>Age</u>	<u>Year Commenced Employment</u>	<u>Year Term Expires</u>
Craven Crowell Chairman	52	1993	2002
Johnny H. Hayes Director	55	1993	1996
William H. Kennoy Director	58	1991	1999
Joseph W. Dickey Chief Operating Officer	51	1991	
Oliver D. Kingsley, Jr. President of TVA Nuclear and Chief Nuclear Officer	53	1988	
David N. Smith Chief Financial Officer	51	1995	
Norman A. Zigrossi Chief Administrative Officer	60	1986	
Edward S. Christenbury General Counsel and Secretary	54	1987	

Mr. Crowell was appointed to the Board in July 1993. Prior to his current position, he served as Chief of Staff for Jim Sasser, Tennessee's then senior U.S. Senator (1989-1993), as Vice President of TVA's Office of Governmental & Public Affairs (1988-1989), and as TVA's Director of Information (1980-1988).

Mr. Hayes was appointed to the Board in July 1993. Prior to his current position, he served as the State of Tennessee's Commissioner of Economic and Community Development (1992-1993) and as Tennessee's Commissioner of Employment Security (1991-1992).

Mr. Kennoy was appointed to the Board in April 1991. Prior to his current position, he served as President of Kennoy Engineers for twenty-five years.

Mr. Dickey was named Chief Operating Officer in February 1994. Prior to his current position, he served as TVA's Senior Vice President, Fossil and Hydro Power (1991-1994), Vice President of Power Resources (Florida Power & Light Co.) (1988-1991), and as Vice President, Nuclear Energy (Florida Power & Light Co.) (1985-1988).

Mr. Kingsley was named President of TVA Nuclear and Chief Nuclear Officer in February 1994. Prior to his current position, he served as TVA's President, Generating Group (1991-1994), as TVA's Senior Vice President of Nuclear Power (1988-1991), and as Vice President, Nuclear Operations for System Energy Resources, Inc. (Mississippi Power and Light Company) (1985-1988).

Mr. Smith was named Chief Financial Officer in January 1995. Prior to his current position, he served as Executive Director of Odyssey Financial (1993-1994), as Vice President of Finance of LTV Corporation (1991-1993), and as Assistant Treasurer and Director of Corporate Finance of LTV Corporation (1986-1991).

Mr. Zigrossi was named Chief Administrative Officer in February 1994. Prior to his current position, he served as TVA's President, Resource Group (1992-1994) and as TVA's Inspector General (1986-1992).

Mr. Christenbury assumed the position of General Counsel of TVA in January 1987. Prior to his current position, he served as an Assistant General Counsel at the NRC (1980-1987).

EMPLOYEES

On September 30, 1995, TVA had about 16,500 employees, of which approximately 5,600 were trades and labor employees. Neither the federal labor laws covering most private sector employers, nor those covering most federal agencies are applicable to TVA; however, the Board has a longstanding policy of recognizing and dealing with recognized representatives of its employees. TVA employees are prohibited by federal law from engaging in strikes against TVA. In 1992, TVA entered into separate long-term agreements with the Tennessee Valley Trades and Labor Council (“Council”), the Salary Policy Employee Panel (“Panel”), and the International Brotherhood of Teamsters (“Teamsters”). One agreement recognizes the Panel for collective bargaining purposes for 20 years. The other recognizes the Council and Teamsters for collective bargaining purposes for 15 years. About 76 percent of TVA’s employees are in these bargaining units, all of which are covered by existing collective bargaining agreements. The collective bargaining agreements with the Council (which is comprised of six unions representing annual trades and labor employees, including those working inside the power plants) and the Teamsters (covering materials handling work) have no specific expiration date; however, each contains provisions for possible expiration of major parts of the agreement as early as 1997, upon six months’ notice. The collective bargaining agreement with the Panel (comprised of five unions representing white collar employees) also has no expiration date; however, the agreement provides for possible expiration of major parts of the agreement in 1999, upon 12 months’ notice. Each of these agreements provide for negotiation of most provisions except monetary matters about every three years; wage and salary and benefit negotiations or adjustments generally occur annually. Unresolved disputes over rates of pay for trades and labor employees are resolved by binding decisions of the Secretary of Labor, while pay and monetary benefits disputes for other represented employees are resolved through binding arbitration. TVA’s hourly construction, modification and supplemental maintenance work is now performed by contractors primarily under project labor agreements negotiated by TVA and the Council. Permanent craft operating and regular maintenance work continues to be performed by annual TVA employees represented by the Council for operating and maintenance employees, and by the Teamsters for materials handling work.

Salaries of regular TVA employees are limited by a federal pay cap (Executive Level IV, currently \$115,700). This had led in the past to difficulties in the recruitment and retention of top management talent, and continues to be an issue which TVA must face in its recruitment and retention efforts. The impact of the pay cap has been alleviated somewhat by the increases in TVA’s pay cap since January 1990 from \$80,700 to \$115,700. TVA has also addressed this issue by developing and implementing supplementary compensation arrangements, which have substantially reduced the impact of the pay cap. In TVA’s opinion, the implementation of these arrangements is within TVA’s legal authority. The GAO has expressed the opinion that some of these arrangements are not within TVA’s legal authority. However, GAO has no authority to issue binding legal opinions on this matter or to stop any TVA payments. Congress is aware of TVA’s supplementary compensation arrangements and has not taken any action that would undermine TVA’s position that the arrangements are within its legal authority. In October 1995, the President issued an Executive Order requiring Government corporations, including TVA, to submit information to the U.S. Office of Management and Budget (“OMB”) on bonuses paid to its executives in excess of \$25,000. Those bonuses and the information supporting them will be reviewed by OMB and the U.S. Department of Labor and will also be publicly disseminated. OMB approval of TVA’s bonuses is not required.

CERTAIN PROVISIONS OF THE TENNESSEE VALLEY AUTHORITY ACT

The following summarizes certain provisions of the Act.

Payments in Lieu of Taxes

TVA is not subject to federal income taxes or to taxation by states or their subdivisions. However, the Act requires TVA to make payments in lieu of taxes to states and counties in which the power operations of the Corporation are conducted. The basic amount is 5 percent of gross revenues from the sale of power to other than federal agencies during the preceding year, with the provision for minimum payments under certain circumstances.

Payments to the Treasury

The Act requires TVA to make certain payments into the Treasury each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment. Net Power Proceeds are defined as the remainder of TVA's Gross Power Revenues after deducting the cost of operating, maintaining and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and payments to states and counties in lieu of taxes, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds of the sale or other disposition of any power facility or interest therein.

Acquisition of Real Estate

The Act empowers TVA to acquire real estate in the name of the United States of America by purchase or by exercise of the right of eminent domain, "and thereupon all such real estate shall be entrusted to the Corporation as the agent of the United States to accomplish the purposes of [the] Act". Since nearly all of TVA's properties, including powerhouses and transmission line rights-of-way, constitute real estate, title to which is held in the name of the United States and entrusted to TVA as agent of the United States, all references in this Statement to "TVA properties" and the like, and to the amounts invested therein, should be read and construed in the light of this provision of the Act.

THE BASIC RESOLUTION; POWER BONDS, DISCOUNT NOTES AND OTHER INDEBTEDNESS

TVA's Power Bonds are issued pursuant to Section 15d of the Act and pursuant to the Basic Resolution. At December 31, 1995, TVA had outstanding \$24.9 billion (\$24.3 billion at September 30, 1995) principal amount of Power Bonds and \$1.9 billion (\$1.2 billion at September 30, 1995) of Power Bonds that are being redeemed under in-substance defeasance arrangements, issued pursuant to the Basic Resolution and resolutions supplemental thereto. Power Bonds may be issued only to provide capital for TVA's power program (including refunding any Evidences of Indebtedness issued for like purposes) and only as authorized by law at the time of issuance. Power Bonds are payable as to both principal and interest solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. Net Power Proceeds for 1995, 1994, and 1993 were \$2.6 billion, \$2.6 billion and \$2.5 billion, respectively. Power Bonds of each series must be further authorized by Supplemental Resolution.

TVA intends from time to time to issue New Power Bonds with maturities and on terms determined in light of market conditions at the time of sale. The New Power Bonds may be sold to dealers or underwriters, who may resell the New Power Bonds in public offerings or otherwise. In addition, New Power Bonds may be sold by TVA directly or through other entities.

Except for FISBS described below, the specific aggregate principal amount, maturity, interest rate or method for determining such rate, interest payment dates, if any, purchase price to be paid to TVA, any terms for redemption or other special terms, form and denomination of New Power Bonds, information as to any stock exchange listing, and the names of any dealers, underwriters or agents, together with a description of any amendments or supplements to the Basic Resolution in connection with the sale of New Power Bonds being offered at a particular time will be set forth in an offering circular, and any appropriate supplement thereto, together with the terms of such New Power Bonds.

New Power Bonds include TVA's FISBS that may be issued from time to time in installments with maturities of from one year to fifty years. TVA intends to offer FISBS for sale on a continuous basis to members of a group of securities dealers selected by TVA, who will resell such FISBS. The aggregate principal amount of all such Installment Bonds will not exceed \$4 billion at any one time outstanding and the maximum effective rate payable on any such Installment Bonds will not exceed 10 percent.

Information relating to FISBS will be set forth in an Installment Bonds offering circular and any appropriate amendment or supplement thereto. At the time of each sale TVA will determine if the FISBS

then being sold will be subject to redemption prior to the maturity date and will establish the purchase price, principal amount, interest rate or interest rate formula, maturity date, and certain other terms of such sale.

TVA's Discount Notes are also issued pursuant to Section 15d of the Act and in accord with Section 2.5 of the Basic Resolution. As of December 31, 1995, TVA had outstanding approximately \$2.4 billion (\$2.7 billion at September 30, 1995) in Discount Notes. The Discount Notes are payable solely from Net Power Proceeds (but may, at the option of TVA, be paid from the proceeds of refunding obligations or other funds legally available for such payment) and are not obligations of, or guaranteed by, the United States of America.

TVA intends to offer Discount Notes for sale on a continuous basis to a group of securities dealers selected by TVA, who will resell such notes. Discount Notes will be issued in such form and upon such terms and conditions as deemed appropriate by TVA. Certain information respecting Discount Notes will be set forth in a Discount Notes offering circular and any appropriate supplement thereto.

TVA from time to time may issue Other Indebtedness, in addition to New Power Bonds and Discount Notes, to assist in financing its Power Program. Other Indebtedness, such as Quarterly Income Debt Securities ("QIDS"), are issued pursuant to Section 15d of the Act and under appropriate authorizing resolutions.

Subordinated debt securities, such as QIDS, may be issued from time to time by TVA with maturities and on terms determined in light of market conditions at the time of sale. These subordinated debt securities may be sold to dealers or underwriters, who may resell them in public offerings or otherwise. In addition, the subordinated debt securities may be sold by TVA directly or through other entities. TVA subordinated debt securities will be payable as to both principal and interest solely from Net Power Proceeds and will not be obligations of, or guaranteed by, the United States of America.

The specific aggregate principal amount, maturity, interest rate or method for determining such rate, interest payment dates, if any, purchase price to be paid to TVA, any terms for redemption or other special terms, form and denomination of Other Indebtedness, information as to any stock exchange listing, and the names of any dealers, underwriters or agents, will be set forth in an offering circular, and any appropriate supplement thereto, together with the terms of such Other Indebtedness.

The following summary of certain provisions of the Basic Resolution does not purport to be complete and is qualified in its entirety by reference to the full text of the Basic Resolution.

Application of Net Power Proceeds

Section 2.3 of the Basic Resolution provides as follows:

Net Power Proceeds shall be applied, and the Corporation hereby specifically pledges them for application, first to payments due as interest on Bonds, on Bond Anticipation Obligations, and on any Evidences of Indebtedness issued pursuant to Section 2.5 which rank on a parity with Bonds as to interest; to payments of the principal due on Bonds for the payment of which other provisions have not been made; and to meeting requirements of sinking funds or other analogous funds under any Supplemental Resolutions. The remaining Net Power Proceeds shall be used only for:

(a) Required interest payments on any Evidences of Indebtedness issued pursuant to Section 2.5 which do not rank on a parity with Bonds as to interest.

(b) Required payments of or on account of principal of any Evidences of Indebtedness other than Bonds.

(c) Minimum payments into the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment.

(d) Investment in Power Assets, additional reductions of the Corporation's capital obligations, and other lawful purposes related to the Power Program; provided, however, that payments into the United States Treasury in any fiscal year in reduction of the Appropriation Investment in addition to the

minimum amounts required for such purpose by the Act may be made only if there is a net reduction during such year in the dollar amount of outstanding Evidences of Indebtedness issued for capital purposes, and only to such extent that the percentage of aggregate reduction in the Appropriation Investment during such year does not exceed the percentage of net reduction during the year in the dollar amount of outstanding Evidences of Indebtedness issued for capital purposes.

Section 2.4 of the Basic Resolution provides as follows:

The Corporation, having first adopted a Supplemental Resolution authorizing the issuance of a series of Bonds and pending such issuance, may issue Bond Anticipation Obligations and renewals thereof (including Interim Obligations to the Secretary of the Treasury) to be paid from the proceeds of such series of Bonds when issued or from other funds that may be available for that purpose.

Section 2.5 of the Basic Resolution provides as follows:

To assist in financing its Power Program the Corporation may issue Evidences of Indebtedness other than Bonds and Bond Anticipation Obligations, which may be payable out of Net Power Proceeds subject to the provisions of Section 2.3 hereof, but no such other Evidences of Indebtedness shall rank on a parity with or ahead of the Bonds as to payments on account of the principal thereof or rank ahead of the Bonds as to payments on account of the interest thereon.

See “Amendments to the Basic Resolution to Become Effective in the Future” for a discussion of amendments that will affect the above provisions of Sections 2.3 and 2.5 of the Basic Resolution.

Rate Covenant

Section 3.2 of the Basic Resolution provides as follows:

The Corporation shall fix, maintain and collect rates for power sufficient to meet in each fiscal year the requirements of that portion of the present subsection (f) of section 15d of the Act which states as follows:

The Corporation shall charge rates for power which will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to States and counties in lieu of taxes; debt service on outstanding bonds, including provision and maintenance of reserve funds and other funds established in connection therewith; payments to the Treasury as a return on the appropriation investment pursuant to subsection (e) hereof; payment to the Treasury of the repayment sums specified in subsection (e) hereof; and such additional margin as the Board may consider desirable for investment in power system assets, retirement of outstanding bonds in advance of maturity, additional reduction of appropriation investment, and other purposes connected with the Corporation’s power business, having due regard for the primary objectives of the Act, including the objective that power shall be sold at rates as low as are feasible.

For purposes of this Resolution, “debt service on outstanding bonds,” as used in the above provision of the Act, shall mean for any fiscal year the sum of all amounts required to be (a) paid during such fiscal year as interest on Evidences of Indebtedness, (b) accumulated in such fiscal year in any sinking or other analogous fund provided for in connection with any Evidences of Indebtedness, and (c) paid in such fiscal year on account of the principal of any Evidences of Indebtedness for the payment of which funds will not be available from sinking or other analogous funds, from the proceeds of refunding issues, or from other sources; provided, however, that for purposes of clause (c) of this definition Bond Anticipation Obligations and renewals thereof shall be deemed to mature in the proportions and at the times provided for paying or setting aside funds for the payment of the principal of the authorized Bonds in anticipation of the issuance of which such Bond Anticipation Obligations were issued.

The rates for power fixed by the Corporation shall also be sufficient so that they would cover all requirements of the above-quoted provision of subsection (f) of section 15d of the Act if, in such requirements, there were substituted for “debt service on outstanding bonds” for any fiscal year the amount which if applied annually for 35 years would retire, with interest at the rates applicable thereto, the originally

issued amounts of all series of Bonds and other Evidences of Indebtedness, any part of which was outstanding on October 1 of such year.

Covenant for Protection of Bondholders' Investment

Under the Act and Section 3.3 of the Basic Resolution, TVA must, in each successive 5-year period beginning October 1, 1960, use either for the reduction of its capital obligations (including Evidences of Indebtedness and the Appropriation Investment) or for investment in Power Assets an amount of Net Power Proceeds at least equal to the sum of (1) depreciation accruals and other charges representing the amortization of capital expenditures and (2) the net proceeds from any disposition of power facilities.

Depreciation

The Basic Resolution requires TVA to accrue, in accordance with a recognized method, annual amounts for depreciation of its power properties (except land and other nondepreciable property) which will amortize their original cost less anticipated net salvage value within their expected useful lives. TVA has provided allowances for depreciation of its power properties (except land and other nondepreciable property) on a straight-line basis during their expected useful lives.

Issuance of Additional Bonds and Other Evidences of Indebtedness

The Act presently limits the issuance of Evidences of Indebtedness by TVA to a total of \$30 billion outstanding at any one time to assist in financing TVA's power program (and for refunding). At December 31, 1995, TVA had approximately \$27.5 billion (\$27.1 billion at September 30, 1995) of outstanding Evidences of Indebtedness. This total does not include \$1.9 billion (\$1.2 billion at September 30, 1995) of Power Bonds that are being redeemed under in-substance defeasance arrangements and are not considered by TVA to be included in the amount of debt that is subject to the \$30 billion limit. (Irrevocable trusts, that hold U.S. Treasury obligations that will provide funds sufficient to pay all remaining amounts that will become due, have been established for each series of Power Bonds being defeased. See Note 6 to "Notes to Financial Statements" in the Financial Statements.) TVA has announced an intention to limit, by October 1997, total outstanding debt to a level \$2-3 billion below the \$30 billion ceiling. The Basic Resolution permits the issuance of Power Bonds only to provide capital for TVA's power program, including the refunding of any Evidences of Indebtedness issued for that purpose.

Power Bonds, the terms and conditions of which may not be inconsistent with the Basic Resolution, must also be authorized by Supplemental Resolution.

The issuance of Power Bonds is limited as follows by the Basic Resolution:

Each Supplemental Resolution authorizing the issuance of Power Bonds must contain a finding by the Board that after the Power Bonds authorized thereby have been issued Gross Power Revenues will be adequate to meet the requirements of the Basic Resolution with respect to rates and the application of depreciation accruals. These requirements are described under "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Rate Covenant" and — "Covenant for Protection of Bondholders' Investment".

The amount of Power Bonds outstanding may not be increased unless net power income (after interest expense and depreciation charges but before payments as a return on or in reduction of the appropriation investment) for the latest five fiscal years has aggregated at least \$200 million. Moreover, that minimum requirement is increased by \$15 million for each ¼ percent (or major fraction thereof) by which the average for those five years of the October 1 average interest rate payable by the United States Treasury upon its total marketable public obligations exceeds 3¼ percent. See Section 3.4 of the Basic Resolution and "The Basic Resolution Power Bonds, Discount Notes and Other Indebtedness" — "Amendments to the Basic Resolution to Become Effective in the Future".

Pending the issuance of Power Bonds authorized by a Supplemental Resolution, Bond Anticipation Obligations and renewals thereof (including Interim Obligations to the Secretary of the Treasury) may be

issued, to be paid from the proceeds of such Power Bonds when issued or from other funds that may be available for that purpose.

Evidences of Indebtedness (such as Discount Notes) other than Power Bonds and Bond Anticipation Obligations may also be issued to assist in financing TVA's power program. They may be payable out of Net Power Proceeds subject to the provisions of Section 2.3 of the Basic Resolution. They may not rank on a parity with or ahead of the Power Bonds as to principal or ahead of them as to interest. See "Amendments to the Basic Resolution to Become Effective in the Future".

Mortgaging and Disposal of Power Properties

TVA may not mortgage any part of its power properties and may not dispose of all or any substantial portion of such properties unless provision is made for a continuance of the interest, principal and sinking fund payments due and to become due on all outstanding Evidences of Indebtedness, or for the retirement of such Evidences of Indebtedness.

Modifications of Resolutions and Outstanding Bonds

The Basic Resolution provides for amendments to it, to any Supplemental Resolution, and to any outstanding Power Bonds. In summary, amendments of the respective rights and obligations of TVA and the bondholders may be made with the written consent of the holders of at least 66⅔ percent in principal amount of the outstanding Power Bonds to which the amendment applies; but changes in the maturity, principal amount, redemption premium, or rate of interest or maturity of any interest installment, with respect to any Power Bond, or in the above percentage for any such consent, cannot be made without the consent of the holder of such Power Bonds.

In addition, TVA may amend the Basic Resolution or any Supplemental Resolution without the consent of the bondholders in order (1) to close the Basic Resolution against the issuance of additional Power Bonds or to restrict such issuance by imposing additional conditions or restrictions; (2) to add other covenants and agreements to be observed by TVA or to eliminate any right, power or privilege conferred upon TVA by the Basic Resolution; (3) to modify any provisions to release TVA from any of its obligations, covenants, agreements, limitations, conditions or restrictions, provided that such modification or release shall not become effective with respect to any Power Bonds issued prior to the adoption of such amendment; (4) to correct any defect, ambiguity or inconsistency in, or to make provisions in regard to matters or questions arising under, the Basic Resolution or any Supplemental Resolution, so long as such amendments are not contrary to, or inconsistent with, the Basic Resolution or such Supplemental Resolution; or (5) to make any other modification or amendment which the Board by resolution determines will not materially and adversely affect the interests of holders of the Power Bonds.

Events of Default

Any of the following shall be deemed an Event of Default under the Basic Resolution: (i) default in the payment of the principal or redemption price of any Power Bond when due and payable at maturity, by call for redemption, or otherwise; (ii) default in the payment of any installment of interest on any Power Bond when due and payable for more than 30 days; or (iii) failure of TVA to duly perform any other covenant, condition or agreement contained in the Power Bonds or in the Basic Resolution or any Supplemental Resolution for 90 days after written notice specifying such failure has been given to TVA by the holders of at least 5 percent in aggregate principal amount of the then outstanding Power Bonds.

Upon any such Event of Default, the holders of the Power Bonds may proceed to protect and enforce their respective rights, subject to the restrictions described below. The holders of at least 5 percent in aggregate principal amount of Power Bonds then outstanding shall, subject to certain restrictions, have the right and power to institute a proceeding (i) to enforce TVA's covenants and agreements, (ii) to enjoin any acts in violation of the rights of holders of Power Bonds, and (iii) to protect and enforce the rights of holders of Power Bonds. Power Bonds do not provide for acceleration upon an Event of Default.

Such holders have no right to bring any such action or proceeding against TVA unless they have given TVA written notice of an Event of Default, and TVA has had a reasonable opportunity to take appropriate corrective action with respect thereto and has failed or refused to do so.

Holders of a majority in aggregate principal amount of the outstanding Power Bonds have the right to direct the time, method and place of conducting any proceeding for any remedy available and may waive any default and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any Power Bonds.

Amendments to the Basic Resolution to Become Effective in the Future

On March 25, 1992, TVA adopted a resolution amending the Basic Resolution, entitled “Fourth Amendatory Resolution to Basic Tennessee Valley Authority Power Bond Resolution” (the “Fourth Amendatory Resolution”). The amendments to the Basic Resolution made by the Fourth Amendatory Resolution will become effective only at such time as either (a) all Power Bonds issued prior to the date of adoption of the Fourth Amendatory Resolution cease to be outstanding (which will occur not later than November 15, 2029) or (b) the holders of at least 66⅔ percent of the principal amount of all then outstanding Power Bonds issued prior to the adoption of the Fourth Amendatory Resolution consent in writing to such amendments. At such times as the amendments become effective, they shall apply to all Power Bonds. The holders of Power Bonds offered after March 25, 1992, shall be deemed to have given their consent to the effect that, at any time after the conditions set forth in (a) or (b) above have been met, the amendments to the Basic Resolution made by the Fourth Amendatory Resolution will become effective in the manner provided. No further vote or consent of the holders of Power Bonds offered after March 25, 1992, is required to permit such amendments to the Basic Resolution to become effective.

The Fourth Amendatory Resolution, when effective in accordance with its terms and the terms of the Basic Resolution as described above, will (1) delete from the Basic Resolution the limitation on issuance of Power Bonds set forth in Section 3.4 thereof and (2) amend the Basic Resolution to permit issuance of other Evidences of Indebtedness under Section 2.5 thereof that rank on a parity with Power Bonds as to principal and interest.

Section 3.4 of the Basic Resolution presently restricts TVA’s ability to issue Power Bonds unless net power income (after interest expense and depreciation charges but before payments as a return on or in reduction of the Appropriation Investment) for the latest five fiscal years has aggregated at least \$200 million. That amount is increased by \$15 million for each ¼ percent (or major fraction thereof) by which the average for those five years of the October 1 average interest rates payable by the United States Treasury upon its total marketable public obligations exceeds 3¼ percent. Upon the effectiveness of the Fourth Amendatory Resolution (which eliminates Section 3.4) Sections 3.5 through 3.10 will be renumbered as appropriate.

The foregoing is a brief summary of certain provisions of the Fourth Amendatory Resolution. This summary is not to be considered a full statement of the terms of the Fourth Amendatory Resolution and, accordingly, is qualified by reference to the Fourth Amendatory Resolution. Copies in reasonable quantity of the Fourth Amendatory Resolution may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (423) 632-3366.

Stripping

Certain series of the Corporation’s New Power Bonds (the “Eligible New Power Bonds”) may be separated (“stripped”) into their Interest and Principal Components (as hereinafter defined) and maintained as such on the book-entry records of the Federal Reserve Banks. The components of each Eligible New Power Bond are: each future interest payment due on or prior to the first date on which the Eligible New Power Bond is subject to redemption at the option of the Corporation (each an “Interest Component”); and the principal payment plus any interest payments after the first date on which the Eligible New Power Bond is subject to redemption at the option of the Corporation (the “Principal Component”). Each Interest Component and the Principal Component will receive an identifying designation and CUSIP number. A request for separation of

an Eligible New Power Bond into its Interest and Principal Components must be made to the Federal Reserve Bank of New York (“FRBNY”). Currently the FRBNY does not charge a fee for stripping Eligible New Power Bonds. For an Eligible New Power Bond to be stripped into its Interest and Principal Components as described above, the principal amount of the Eligible New Power Bond must be in an amount that, based on the stated interest rate of the Eligible New Power Bonds, will produce a semi-annual interest payment of \$1,000 or multiples thereof. The minimum principal amounts required to strip an Eligible New Power Bond at various interest rates, as well as the interest payments corresponding to those minimum principal amounts, may be obtained by calling the Corporation’s Vice President and Treasurer at (423) 632-3366 and the minimum principal amount required to strip an Eligible New Power Bond will be disclosed in a related offering circular except for Installment Bonds. Interest and Principal Components will be obligations of TVA payable solely from TVA’s Net Power Proceeds.

Once a New Power Bond has been stripped into its Interest and Principal Components, the Interest and Principal Components may be maintained and transferred on the book-entry system of the Federal Reserve Banks in integral multiples of \$1,000. Payments on the Interest and Principal Components will be made on the applicable payment dates on the related New Power Bonds by crediting holders’ accounts at the FRBNY. At the request of a holder and on the holder’s payment of a fee (currently the FRBNY’s fee applicable to on-line book-entry securities transfers), the FRBNY will restore (“reconstitute”) the unmatured Interest and Principal Components of a stripped New Power Bond to their fully constituted form. Holders wishing to reconstitute the unmatured Interest and Principal Components of a stripped New Power Bond to their fully constituted form must (i) produce all outstanding Interest and Principal Components for a stripped New Power Bond and (ii) comply with all applicable requirements of the FRBNY governing the stripping and reconstitution of securities.

The offering price of the Interest and Principal Components could be at substantial discounts from their face amounts and, as a result, these components may be subject to greater interest rate volatility than the fully constituted New Power Bonds or other obligations bearing current interest. There also may be a less liquid secondary market for such Interest and Principal Components as compared to the secondary market for the fully constituted New Power Bonds.

The Interest and Principal Components of Eligible New Power Bonds could be subject to restrictions or requirements with respect to the legality of investment therein which do not apply to New Power Bonds held in their fully constituted form. Thus, each person or entity is advised to consult with its own counsel with respect to the legality of investment in Interest and Principal Components.

INDEPENDENT ACCOUNTANTS

The financial statements of TVA at September 30, 1995, and 1994 and for each of the three fiscal years in the period ended September 30, 1995, appended hereto as part of the Information Statement, have been audited by Coopers & Lybrand L.L.P., independent accountants, as set forth in their report, which includes an emphasis of a matter paragraph with respect to TVA's announcement that it will not by itself, complete certain projects as nuclear units dated November 16, 1995, which report is also appended hereto.

* * * * *

Any statements in this Information Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Information Statement is not to be construed as a contract or agreement with the purchaser of any of the New Power Bonds, Discount Notes or Other Indebtedness.

This Information Statement has been approved by a duly authorized officer of the Tennessee Valley Authority.

Tennessee Valley Authority

By: /s/ JOHN M. HOSKINS

John M. Hoskins
*Vice President and
Treasurer*

Dated March 20, 1996

TENNESSEE VALLEY AUTHORITY
FINANCIAL STATEMENTS
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FINANCIAL HIGHLIGHTS — POWER PROGRAM

	As of and for the Years Ended September 30,		
	1995	1994	Percent Change
	(Millions of dollars)		
Operating Revenues	\$ 5,375	\$ 5,401	—
Operating Expenses	<u>3,448</u>	<u>3,461</u>	—
Operating Income	1,927	1,940	(1%)
Other Expense	(91)	(59)	54%
Interest Expense	<u>1,826</u>	<u>1,730</u>	6%
Net Income	<u>10</u>	<u>151</u>	(93%)
Total Assets	<u>\$33,293</u>	<u>\$31,842</u>	5%
Capitalization			
Long-term Debt	\$23,889	\$22,922	4%
Proprietary Capital	<u>4,030</u>	<u>4,082</u>	(1%)
Total Capitalization	<u>\$27,919</u>	<u>\$27,004</u>	3%

POWER SYSTEM STATISTICS

	As of and for the Years Ended September 30,		
	1995	1994	Percent Change
	(Millions of kilowatt-hours)		
System Input			
System Generation			
Hydro, including Pumped Storage	13,515	15,679	(14%)
Coal	94,347	92,058	2%
Nuclear	23,355	18,359	27%
Combustion Turbine	<u>393</u>	<u>239</u>	64%
Total Net Generation	131,610	126,335	4%
Purchased	3,793	4,589	(17%)
Net Interchange and Wheeling	<u>3,604</u>	<u>1,402</u>	157%
Total System Input	<u>139,007</u>	<u>132,326</u>	5%
System Output			
Sales			
Municipalities and Cooperatives	110,245	108,073	2%
Federal Agencies	7,226	4,407	64%
Industries directly served	<u>16,684</u>	<u>15,792</u>	6%
Total Sales	134,155	128,272	5%
Other	1,378	915	51%
Losses	<u>3,474</u>	<u>3,139</u>	11%
Total System Output	<u>139,007</u>	<u>132,326</u>	5%
Winter Net Dependable Capacity (megawatts)	25,831	25,880	—
Percent of Average Gross Generation to Winter Net Dependable Capacity ...	64.39	62.06	4%
System Peak Load (megawatts) — Summer	25,496	23,398	9%
System Peak Load (megawatts) — Winter	24,676	24,723	—
Annual Load Factor	62.22	60.42	3%
Percent Winter Net Dependable Capacity by Fuel Source			
Coal	58%	58%	—
Hydro	20%	20%	—
Combustion Turbine	9%	9%	—
Nuclear	13%	13%	—

STATEMENTS OF NET EXPENSE — NONPOWER PROGRAMS

	For the years ended September 30,		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(in millions)		
Net expense			
Stewardship	\$ 63	\$ 78	\$ 73
Water and land	—	8	(3)
Land Between The Lakes	6	4	5
Rural development	23	20	23
Environmental Research Center	21	26	30
Columbia Dam	69	—	—
Net expense	<u>\$182</u>	<u>\$136</u>	<u>\$128</u>

STATEMENTS OF ACCUMULATED NET EXPENSE — NONPOWER PROGRAMS

	<u>1995</u>	<u>1994</u>	<u>1993</u>
Net expense	\$ 182	\$ 136	\$ 128
Accumulated net expense at beginning of period	<u>2,939</u>	<u>2,803</u>	<u>2,675</u>
Accumulated net expense at end of period	<u>\$3,121</u>	<u>\$2,939</u>	<u>\$2,803</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY AUTHORITY

BALANCE SHEETS

At September 30, 1995 and 1994

	Power program		All programs	
	1995	1994	1995	1994
	(Millions)			
ASSETS				
CURRENT ASSETS				
Cash	\$ 52	\$ 2	\$ 131	\$ 152
Accounts receivable	681	676	698	720
Inventories, at average cost				
Fuel	104	104	104	104
Other	251	243	251	243
Total current assets	1,088	1,025	1,184	1,219
PROPERTY, PLANT AND EQUIPMENT				
Completed plant	18,412	16,700	19,488	17,845
Less accumulated depreciation	(6,061)	(5,584)	(6,351)	(5,861)
Net completed plant	12,351	11,116	13,137	11,984
Construction in progress	9,556	9,520	9,606	9,558
Deferred nuclear generating units	6,227	6,206	6,227	6,206
Nuclear fuel and capital lease assets	1,167	1,229	1,167	1,229
Total property, plant and equipment	29,301	28,071	30,137	28,977
INVESTMENT FUNDS	260	150	260	150
DEFERRED CHARGES AND OTHER ASSETS				
Loans and other long-term receivables	323	299	394	355
Debt issue and reacquisition costs	1,233	1,340	1,233	1,340
Other deferred charges	1,088	957	1,088	957
Total deferred charges and other assets	2,644	2,596	2,715	2,652
Total assets	<u>\$33,293</u>	<u>\$31,842</u>	<u>\$34,296</u>	<u>\$32,998</u>
CAPITALIZATION AND PROPRIETARY CAPITAL				
CURRENT LIABILITIES				
Accounts payable	\$ 694	\$ 646	\$ 722	\$ 770
Accrued liabilities	130	196	141	221
Accrued interest	455	424	455	424
U.S. Treasury notes	150	150	150	150
Discount notes	2,681	2,459	2,581	2,459
Current maturities of long-term debt	1,306	716	1,306	716
Total current liabilities	5,416	4,591	5,455	4,740
OTHER LIABILITIES	1,264	963	1,264	963
LONG-TERM DEBT				
Senior debt: public bonds	19,153	19,146	19,153	19,146
Federal Financing Bank	3,200	3,400	3,200	3,400
Subordinated debt: public bonds	600	—	600	—
Unamortized discount	(370)	(340)	(370)	(340)
Total long-term debt	22,583	22,206	22,583	22,206
PROPRIETARY CAPITAL				
Appropriation investment	628	648	4,713	4,594
Retained earnings reinvested in power program	3,402	3,434	3,402	3,434
Accumulated net expense of nonpower programs			(3,121)	(2,939)
Total proprietary capital	4,030	4,082	4,994	5,089
Total liabilities and proprietary capital	<u>\$33,293</u>	<u>\$31,842</u>	<u>\$34,296</u>	<u>\$32,998</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY AUTHORITY
STATEMENTS OF INCOME AND RETAINED EARNINGS — POWER PROGRAM
For the Years Ended September 30, 1995, 1994 and 1993

	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(Millions)		
OPERATING REVENUES			
Sales of electricity			
Municipalities and cooperatives	\$4,654	\$4,582	\$4,479
Federal agencies	179	296	254
Industries directly served	460	452	472
Other	<u>82</u>	<u>71</u>	<u>71</u>
Total operating revenues	5,375	5,401	5,276
OPERATING EXPENSES			
Fuel and purchased power, net	1,443	1,493	1,401
Operating and maintenance	1,050	1,081	1,174
Depreciation and amortization	703	639	457
Tax-equivalent payments	<u>252</u>	<u>248</u>	<u>237</u>
Total operating expenses	3,448	3,461	3,269
Operating income	1,927	1,940	2,007
OTHER INCOME AND EXPENSE, NET	<u>(91)</u>	<u>(59)</u>	<u>23</u>
Income before interest charges	1,836	1,881	2,030
INTEREST CHARGES			
Interest on debt	1,908	1,731	1,666
Amortization of debt discount, issue, and reacquisition costs, net	116	122	111
Allowance for funds used during construction	<u>(198)</u>	<u>(123)</u>	<u>(58)</u>
Net interest charges	1,826	1,730	1,719
NET INCOME	10	151	311
Return on appropriation investment	<u>(42)</u>	<u>(42)</u>	<u>(48)</u>
Increase (decrease) in retained earnings	(32)	109	263
Retained earnings reinvested at beginning of period	<u>3,434</u>	<u>3,325</u>	<u>3,062</u>
Retained earnings reinvested at end of period	<u>\$3,402</u>	<u>\$3,434</u>	<u>\$3,325</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 1995, 1994, and 1993

	Power program			All programs		
	1995	1994	1993	1995	1994	1993
	(Millions)					
Cash Flows From Operating Activities						
Net power income	\$ 10	\$ 151	\$ 311	\$ 10	\$ 151	\$ 311
Net expense of nonpower programs	—	—	—	(182)	(136)	(128)
Items not requiring (providing) cash						
Depreciation and amortization	715	639	457	728	651	467
Allowance for funds used during construction	(198)	(123)	(58)	(198)	(123)	(58)
Nuclear fuel amortization	112	176	—	112	176	—
Other, net	72	217	120	142	216	120
Changes in current assets and liabilities						
Accounts receivable	(5)	76	(59)	22	66	(68)
Inventories	(8)	99	(25)	(8)	99	(25)
Accounts payable and accrued liabilities	74	(23)	(186)	(36)	(51)	(185)
Accrued interest	31	(21)	(35)	31	(21)	(35)
Other	(1)	(47)	(22)	(2)	(47)	(23)
Net cash provided by operating activities	802	1,144	503	619	981	376
Cash Flows From Investing Activities						
Construction expenditures	(1,868)	(2,015)	(2,311)	(1,880)	(2,023)	(2,319)
Allowance for funds used during construction	198	123	58	198	123	58
Nuclear fuel	(77)	70	(2,275)	(77)	70	(2,275)
Investments	(100)	(26)	539	(100)	(26)	539
Other, net	(24)	(80)	139	(39)	(77)	130
Net cash used in investing activities	(1,871)	(1,928)	(3,850)	(1,898)	(1,933)	(3,867)
Cash Flows From Financing Activities						
Long-term debt						
Issues	3,500	6,381	4,669	3,500	6,381	4,669
Redemptions	(2,503)	(3,175)	(638)	(2,503)	(3,175)	(638)
Debt defeased	—	(1,493)	(1,929)	—	(1,493)	(1,929)
Short-term borrowings, net	222	(726)	1,628	222	(726)	1,628
Borrowing expenses, net	(38)	(252)	(359)	(38)	(252)	(359)
Congressional appropriations	—	—	—	139	141	136
Payments to U.S. Treasury	(62)	(62)	(68)	(62)	(62)	(68)
Net cash provided by financing activities	1,119	673	3,303	1,258	814	3,439
Net change in cash	50	(111)	(44)	(21)	(138)	(52)
Cash at beginning of period	2	113	157	152	290	342
Cash at end of period	<u>\$ 52</u>	<u>\$ 2</u>	<u>\$ 113</u>	<u>\$ 131</u>	<u>\$ 152</u>	<u>\$ 290</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

TVA is a wholly-owned corporate agency and instrumentality of the United States. It was established by the TVA Act with the objective of developing the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense by providing: (1) an ample supply of power within the region; (2) navigable channels and flood control for the Tennessee River System; and (3) agricultural and industrial development and improved forestry in the region.

TVA's programs are divided into two types of activities — the power program and the nonpower programs. Substantially all TVA revenues and assets are attributable to the power program. The power program is separate and distinct from the nonpower programs and is required to be self-supporting from power revenues and funds borrowed from public markets. The power program receives no congressional appropriations. Most of the funding for TVA's nonpower programs is provided by congressional appropriations. Certain nonpower activities are also funded by various revenues and user fees. Financial accounts for the power and nonpower programs are kept separately.

Power rates are established by the TVA Board of Directors as authorized by the TVA Act. The TVA Act requires TVA to charge rates for power which, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states in lieu of taxes; debt service on outstanding indebtedness; and annual payments to the U.S. Treasury in repayment of and as a return on the government's initial appropriation investment in TVA power facilities.

Property, plant, and equipment and depreciation

Additions to plant are recorded at cost, which includes direct and indirect costs such as general engineering, a portion of corporate overhead, and an allowance for funds used during construction. The cost of betterments is capitalized and the cost of current repairs and minor replacements is charged to operating expense. The TVA Act requires TVA's Board of Directors to allocate between the power and nonpower programs, subject to the approval of the President of the United States, the cost of completed multipurpose projects. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation. Straight-line depreciation is provided for substantially on a composite basis. Rates of depreciation are derived from engineering studies of useful life. The average of the composite rates that were applied individually to each major class of plant for fiscal years 1995, 1994, and 1993 was 3.19 percent, 3.14 percent, and 3.06 percent, respectively.

Decommissioning costs

Provision for decommissioning costs of nuclear generating units is based on the estimated cost using the dismantling/removal method. The amount stated in 1994 dollars for Browns Ferry is \$800 million, and \$490 million for Sequoyah. The excess of the annual decommissioning provision over earnings from any investments designated for funding decommissioning costs is charged to depreciation expense.

Allowance for funds used

The practice of capitalizing an allowance for funds used during construction is followed in the power program. The allowance is applicable to construction in progress excluding deferred nuclear generating units and Watts Bar One, which is substantially complete. Effective October 1, 1994, TVA changed its method of determining the interest rate used to calculate the allowance for funds used during construction. The change was made to more accurately reflect the nature of the indebtedness issued to fund construction. The effect of the change for fiscal 1995 was to increase the amount of interest capitalized by approximately \$56 million.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Nuclear fuel

Prior to 1994, the cost of nuclear fuel, including disposal and capitalized interest, was amortized on the basis of generation and charged to fuel expense. Effective for 1994, TVA elected to reclassify a \$1,009 million capitalized interest component of nuclear fuel to other deferred charges. This regulatory asset is being amortized on a straight-line basis over an eight-year period. The effect of this change was to increase amortization expense by \$126 million for 1995 and 1994. The remaining balance of nuclear fuel will continue to be amortized based on generation. Related financing costs are capitalized as a component of the nuclear fuel acquired.

Investment funds

Prior to September 1993, \$210 million of power funds were invested in zero coupon bonds in order to provide funding for decommissioning nuclear power plants. In September 1993, TVA determined that the portfolio of investments designated for funding decommissioning could be sold and such proceeds reinvested in instruments that would yield greater proceeds over the remaining term to decommissioning dates. Accordingly, these investments were sold for \$373 million and TVA realized a gain of \$163 million. The gain was deferred and amortized into income over a 24-month period beginning in October 1993. As of September 30, 1995, a \$260 million investment portfolio consisting of short-term marketable securities had been reestablished. TVA is currently reviewing various investment alternatives designed to ensure sufficient funding at decommissioning dates.

Debt-issuance costs

Issue and reacquisition expenses, call premiums and other related costs, and discounts on power borrowings are deferred and amortized (accreted), respectively, on a straight-line basis over the term of the related outstanding securities.

Tax-equivalent payments

The TVA Act requires the TVA to make payments to states and local governments in which the power operations of the corporation are conducted. The basic amount is 5 percent of gross revenues from the sale of power to other than federal agencies during the preceding year, with the provision for minimum payments under certain circumstances.

Statements of cash flows

Cash includes the cash available in commercial bank accounts and U.S. Treasury accounts. During fiscal years 1995, 1994, and 1993, interest paid (net of amount capitalized) was \$1,678 million, \$1,628 million, and \$1,642 million, respectively.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

2. NUCLEAR POWER PROGRAM

The nuclear power program at September 30, 1995, consists of nine units at four locations with investments as follows and in the status indicated:

	<u>Units</u>	<u>Capacity (Megawatts)</u>	<u>Completed Plant, Net</u>	<u>Construction in Progress</u>	<u>Deferred</u>	<u>Fuel Investment</u>
				(Millions)		
Sequoyah	2	2,442	\$1,995	\$ 149	\$ —	\$106
Browns Ferry	3	3,456	2,266	1,488	—	201
Watts Bar	2	2,540	—	6,919	1,660	85
Bellefonte	2	2,664	—	—	4,567	—
Raw Materials			—	—	—	565
Total		<u>11,102</u>	<u>\$4,261</u>	<u>\$8,556</u>	<u>\$6,227</u>	<u>\$957</u>

Sequoyah 1, which was operational during 1995, began a refueling outage in September 1995, and returned to service during November 1995. Sequoyah Two returned to service in November 1994, following a refueling outage. Sequoyah One and Two are currently operating at full power.

Browns Ferry 2 returned to service in November 1994, following a refueling outage and is currently operating at full power. Browns Ferry 1 and 3 were taken off-line in March 1985, for plant modifications and regulatory improvements. In October 1995, TVA loaded fuel in Browns Ferry 3 and plans to return this unit to service in 1996. The return-to-service date for Browns Ferry 1 is currently under review in the integrated resource planning effort as discussed below.

During November 1995, TVA received a low-power operating license from the Nuclear Regulatory Commission for Watts Bar Unit 1. TVA loaded fuel in November 1995 and plans to bring Watts Bar 1 into commercial operation in 1996.

In 1988, TVA suspended construction activities on Watts Bar 2 and the unit is currently in lay-up. Bellefonte 1 and 2 were deferred in 1988 and 1985, respectively. Budgeted 1996 expenditures for the three units total \$10 million and are limited to lay-up, maintenance, and ensuring that options remain viable. For financial reporting purposes, the cost of the three units is presented as deferred nuclear generating units.

In 1993, TVA began an integrated resource planning process from which information will be utilized to determine TVA's strategy for meeting future customer energy demands. As part of its long-term energy strategy, TVA is reevaluating the need for finishing Bellefonte 1 and 2 and Watts Bar 2 as nuclear units. Preliminary cost estimates show that completing these facilities as nuclear units could cost as much as \$8.8 billion, which indicates their completion may not be economically feasible. In December 1994, TVA determined it will not, by itself, complete Bellefonte 1 and 2 and Watts Bar 2 as nuclear units. During July 1995, TVA issued a draft of its Integrated Resource Plan (IRP) which identified as a viable option the conversion of the Bellefonte facility to a combined cycle plant utilizing natural gas or gasified coal. The feasibility of converting Bellefonte to an alternate fuel will require in-depth engineering and financial analysis and accordingly, TVA will utilize an outside team of technical and financial experts. The feasibility study is expected to be completed in early 1997. Subsequent to completion of the IRP the TVA Board will consider alternatives, including converting the units to another fuel source and/or completing them with a partner. The draft IRP also concluded that Watts Bar 2 and Browns Ferry 1 should remain in deferred status until completion of the Bellefonte study. The impact on TVA's financial position as a result of completing, converting, or joint venturing these units will be determined upon completion of the Bellefonte study. The future decisions on these units will ultimately impact the method of cost recovery, and the TVA Board has determined that it will, at that time, establish rate adjustments and operating policies to ensure full recovery of the cost of these units and compliance with the requirements of the TVA Act.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Nuclear Fuel

In order to monetize a portion of its investment in nuclear fuel, TVA has converted certain fuel assemblies to forms suitable for use at alternate sites and entered into various agreements wherein certain nuclear fuel was loaned or exchanged for fuel-related services and other consideration. As the book value of the natural uranium component of TVA's nuclear fuel exceeds market value, TVA recognized charges in the statements of income related to such transactions totaling \$31 million in 1995 and \$140 million in 1994. As of September 30, 1995, the natural uranium component of the total nuclear fuel asset exceeds current market value by an estimated \$330 million. TVA believes that the total nuclear fuel asset book value of \$957 million will result in average nuclear fuel costs which are within the industry range. During 1993, TVA repurchased nuclear fuel that was previously under capital lease.

3. COMPLETED PLANT — POWER PROGRAM

Completed plant stated at gross cost consists of the following at September 30, 1995, and 1994:

	1995			1994		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
	(Millions)					
Fossil Plants	\$ 6,826	\$2,607	\$ 4,219	\$ 5,712	\$2,458	\$ 3,254
Nuclear Plants	5,813	1,552	4,261	5,664	1,365	4,299
Transmission	2,659	934	1,725	2,457	885	1,572
Hydro Plants	1,184	449	735	1,152	433	719
Other	1,930	519	1,411	1,715	443	1,272
Total	<u>\$18,412</u>	<u>\$6,061</u>	<u>\$12,351</u>	<u>\$16,700</u>	<u>\$5,584</u>	<u>\$11,116</u>

4. LEASES

TVA presently leases property, plant, and equipment under lease agreements with terms ranging from one to 30 years. Most of the agreements include purchase options and/or renewal options that cover substantially all the economic lives of the properties.

Obligations under capital lease agreements in effect at September 30, 1995 were:

<u>Fiscal Year</u>	<u>General Plant Capital Leases (Millions)</u>
1996	\$ 36
1997	36
1998	36
1999	36
2000	36
Thereafter	<u>372</u>
Total future minimum lease payments	552
Interest element included	<u>(342)</u>
Present value of future minimum lease payments	<u>\$210</u>

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

5. APPROPRIATION INVESTMENT — POWER PROGRAM

Changes in the appropriation investment during the fiscal years ended September 30, 1995, 1994, and 1993 were:

	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(Millions)		
Power Program			
Congressional appropriations	\$1,419	\$1,419	\$1,419
Transfers of property from other federal agencies	24	24	24
Repayments to general fund of the U.S. Treasury	<u>(815)</u>	<u>(795)</u>	<u>(775)</u>
Net appropriation investment	<u>\$ 628</u>	<u>\$ 648</u>	<u>\$ 668</u>

The TVA Act requires payment to the U.S. Treasury from net power proceeds of a return on the net appropriation investment in power facilities plus an annual repayment of such investment. The annual required repayment is \$20 million through the year 2014. The payments required by the TVA Act may be deferred under certain circumstances for not more than two years. The amount of return paid in 1995 was \$42 million and is based on the appropriation investment as of the beginning of the year and the computed average interest rate payable by the U.S. Treasury on its total marketable public obligations as of the same date.

6. BORROWING AUTHORITY

The TVA Act authorizes TVA to issue bonds, notes, and other evidences of indebtedness up to a total of \$30 billion outstanding at any one time. TVA must meet certain cash flow and earnings tests that are contained in the TVA Act and the Basic TVA Power Bond Resolution. Debt service on these obligations, which is payable solely from TVA's net power proceeds, has precedence over the payment to the U.S. Treasury described in note 5. Issues outstanding at September 30, 1995 and 1994 (excluding defeased debt of \$1.2 billion and \$3.8 billion, respectively, which is not considered by TVA to be debt that is subject to the \$30 billion bond limit) consist of the following:

	<u>1995</u>	<u>1994</u>
	(Millions)	
Short-Term Debt		
U.S. Treasury	\$ 150	\$ 150
Held by public		
Discount notes (net of discount)	2,681	2,459
Current portion of long-term debt — 3.41% to 4.25%	<u>1,306</u>	<u>716</u>
Total short-term debt	<u>4,137</u>	<u>3,325</u>

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

	<u>1995</u>	<u>1994</u>
	(Millions)	
Long-Term Debt		
Held by public — senior		
Maturing in fiscal year 1996 — 3.81% to 5.94%	\$ —	\$ 1,306
Maturing in fiscal year 1997 — 3.30% to 6.87%	2,250	3,137
Maturing in fiscal year 1998 — 5.07% to 6.98%	453	653
Maturing in fiscal year 1999 — 6.25% to 7.625%	1,550	1,650
Maturing in fiscal year 2000 through 2045 — 6.125% to 8.625%	14,900	12,400
Held by Federal Financing Bank — senior		
Maturing during fiscal years 2003 through 2017 — 7.285% to 11.695% ..	3,200	3,400
Held by public — subordinated		
Maturing in fiscal year 2045 — 8.00%	<u>600</u>	<u>—</u>
Total long-term debt	22,953	22,546
Unamortized discount	<u>(370)</u>	<u>(340)</u>
Net long-term debt	22,583	22,206
Total Debt	<u>\$26,720</u>	<u>\$25,531</u>

Between October 1989 and September 1995, TVA sold \$23.4 billion in Power Bonds to the public, using the proceeds to advance refund \$21.7 billion in previously issued long-term debt. Bond issues of \$17.5 billion held by the public are redeemable in whole or in part at TVA's option on call dates ranging from the present to July 2020 at call prices ranging from 100 percent to 106.7 percent of the principal amount. TVA incurred premiums totaling \$1.4 billion to effect these advance refundings, which premiums are being deferred and recognized as an expense ratably through the maturity dates of the new debt issues. Certain advance refundings were effected through insubstance defeasance transactions, wherein TVA transferred sufficient funds to establish irrevocable trusts to hold securities that are scheduled to earn interest and mature in amounts sufficient to meet debt service requirements. At September 30, 1995, and 1994, TVA had outstanding long-term debt of \$1.2 billion and \$3.8 billion respectively, which had been defeased.

The interest rate on short-term debt owed to the U.S. Treasury as of September 30, 1995, was 6.00 percent and the weighted average rate applicable to short-term debt outstanding in the public market as of September 30, 1995, was 5.79 percent.

During fiscal years 1995, 1994, and 1993, the maximum outstanding balance of short-term borrowings held by the public was (in millions) \$3,503, \$4,062, and \$3,302, respectively, and the average amounts (and weighted average interest rates) of such borrowings were approximately (in millions), \$2,743 (5.83 percent), \$3,163 (3.75 percent), and \$2,117 (3.19 percent), respectively.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The methods and assumptions used to estimate the fair values of each class of financial instruments are in accordance with Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments."

Cash, investment fund, and short-term debt

The carrying amount approximates fair value because of the short-term maturity of these instruments.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Loans and long-term receivables

Fair values for these homogeneous categories of loans and receivables are estimated by determining the present value of future cash flows using the current rates at which similar loans are presently made to borrowers with similar credit ratings and for the same remaining maturities.

Bonds

Fair value of long-term debt traded in the public market is determined by multiplying the par value of the bonds by the quoted market price (asked price) nearest the balance sheet date. The fair value of other long-term debt and long-term debt held by the Federal Financing Bank is estimated by determining the present value of future cash flows using rates of financial instruments with quoted market prices of similar characteristics of the same remaining maturities.

The estimated values of financial instruments are as follows:

	1995		1994	
	Carrying Amount	Fair Amount	Carrying Amount	Fair Amount
	(Millions)			
Cash	\$ 131	\$ 131	\$ 152	\$ 152
Investment funds	260	260	150	150
Loans and long-term receivables	394	378	355	345
Short-term debt	2,831	2,831	2,609	2,609
Long-term debt, including current maturities	24,259	24,426	23,262	22,590

8. RETIREMENT PLANS

Pension plan

TVA has a contributory, defined benefit plan covering most full-time employees. Plan assets are primarily stocks and bonds. TVA contributes to the plan such amounts as are necessary on an actuarial basis to provide assets sufficient to meet the obligations for benefits. The pension amount is based on the member's years of creditable service, average base pay for the highest three consecutive years, and the pension rate for the member's age and years of service, less a Social Security offset.

The components of pension expense for TVA for fiscal years 1995, 1994, and 1993 were:

	1995	1994	1993
	(Millions)		
Service Cost.....	\$ 62	\$ 76	\$ 77
Interest cost on projected benefit obligation	304	275	256
Actual return on assets	(816)	(32)	(512)
Net amortization and deferral	450	(307)	209
Net pension costs	<u>\$ 0</u>	<u>\$ 12</u>	<u>\$ 30</u>

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

	<u>1995</u>	<u>1994</u>	<u>1993</u>
		(Millions)	
The plan's funded status was:			
Actuarial present value of benefit obligations			
Vested benefit obligation	\$(3,256)	\$(2,839)	\$(2,844)
Nonvested benefits	<u>(113)</u>	<u>(111)</u>	<u>(106)</u>
Accumulated benefit obligation	(3,369)	(2,950)	(2,950)
Effects of projected future compensation	<u>(323)</u>	<u>\$ (389)</u>	<u>\$ (409)</u>
Projected benefit obligation	(3,692)	(3,339)	(3,359)
Plan asset at fair value	<u>4,375</u>	<u>3,674</u>	<u>3,718</u>
Excess of plan assets over projected benefit obligation	683	335	359
Unrecognized net gain	(627)	(280)	(343)
Unrecognized net obligation being amortized over 15 years beginning October 1, 1987	<u>2</u>	<u>3</u>	<u>3</u>
Prepaid pension cost	<u>\$ 58</u>	<u>\$ 58</u>	<u>\$ 19</u>

The discount rate used to determine the actuarial present value of the projected benefit obligation was 7.5 percent in 1995, 8.5 percent in 1994, and 8.0 percent in 1993. The assumed annual rates of increase in future compensation levels for 1995 range from 3.3 to 8.3 percent, 1994 ranged from 4.3 to 9.3 percent, and 1993 ranged from 3.5 to 9.3 percent. The expected long-term rate of return on plan assets was 11 percent for 1995, 1994, and 1993.

Other postretirement benefits

TVA sponsors an unfunded defined benefit postretirement plan which provides for contributions toward the cost of retirees' medical coverage. The plan covers employees whose age plus years of service at retirement equals 60 or more. TVA's contributions are a flat dollar amount based upon the participants' age and years of service and certain payments toward the plan costs.

The following sets forth TVA's plan funded status at September 30:

	<u>1995</u>	<u>1994</u>	<u>1993</u>
		(Millions)	
Accumulated Postretirement Benefit Obligation (APBO):			
Retirees	\$214	\$166	\$144
Fully eligible active plan participants	1	1	1
Other active participants	<u>116</u>	<u>114</u>	<u>139</u>
	331	281	284
Unrecognized net gain (loss)	<u>(15)</u>	<u>6</u>	<u>(5)</u>
Accrued postretirement benefit cost	<u>\$316</u>	<u>\$287</u>	<u>\$279</u>
Net Periodic Postretirement Benefit Cost for these fiscal years included the following components:			
Service cost	\$ 7	\$ 10	\$ 9
Interest cost	26	22	22
Amortization of gain	<u>—</u>	<u>(5)</u>	<u>—</u>
Net periodic postretirement benefit cost	<u>\$ 33</u>	<u>\$ 27</u>	<u>\$ 31</u>

The annual assumed cost trend for covered benefits is 11.5 percent in fiscal year 1995, decreasing by one-half percent per year reaching 5.5 percent in 2007 and thereafter. For fiscal years 1994 and 1993 an annual trend

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

rate of 13.0 percent and 13.5 percent respectively was assumed. The effect of the change in assumptions on a cost basis was not significant. Increasing the assumed health-care cost trend rates by one percent would increase the accumulated postretirement benefit obligation (APBO) as of September 30, 1995, by \$20 million and the aggregated service and interest cost components of net periodic postretirement benefit cost for 1995 by \$2 million.

The weighted average discount rate used in determining the APBO was 7.5 percent for fiscal year 1995, 8.5 percent for fiscal year 1994, and 8.0 percent for fiscal year 1993. Gains and losses resulting from experience different from that assumed or from changes in assumptions are amortized using a straight-line method over four years.

Other postemployment benefits

Statement of Financial Accounting Standards, “Employers Accounting for Postemployment Benefits” (SFAS No. 112) applies to postemployment benefits including workers’ compensation provided to former or inactive employees, their beneficiaries, and covered dependents after employment, but before retirement. Adoption of SFAS No. 112 on October 1, 1994, changed TVA’s method of accounting from recognizing costs as benefits are paid, to accruing the expected costs of providing these benefits. This resulted in recognition of a transition obligation of approximately \$280 million. In connection with adoption of SFAS No. 112, TVA recorded a regulatory asset of \$280 million, which is being amortized over approximately 15 years whereby the annual expense will approximate the expense recorded prior to adoption of SFAS No. 112.

1995 Early-Out Termination Package

During 1995, TVA made available a voluntary early-out benefit termination package which was accepted by approximately 2,500 employees at a cost of \$148 million. The components of the package consisted of severance pay (\$74 million), retirement benefits (\$52 million), and postretirement health benefits (\$22 million). Of the total cost, \$136 million was applicable to the power program and was charged to other expense during 1995. The remaining \$12 million was applicable to nonpower operations and was recorded by the power program as a long-term receivable to be recovered from future available nonpower funds.

9. MAJOR CUSTOMERS

In accordance with contract provisions the Department of Energy (DOE) exercised its right prior to fiscal year 1987 to reduce the amount of electric power it would purchase from TVA. TVA and DOE reached an agreement in December 1987, whereby DOE’s payment obligations were satisfied through a series of payments to TVA totaling over \$1.8 billion between 1987 and 1994. Scheduled payments of \$160 million are included in revenues in 1993 and 1994.

One municipal customer accounts for approximately 10 percent of total power sales and four other municipal customers account for an additional 21 percent of total power sales. All five of these municipal customers have contracts without stated expiration dates, and in no event would the remaining contract term be less than 10 years.

10. CONSTRUCTION EXPENDITURES AND COMMITMENTS AND CONTINGENCIES

Construction expenditures, including capitalized interest, are estimated to be \$1.3 billion for fiscal year 1996. Estimates for capital expenditures beyond 1996 will depend upon the outcome of TVA’s integrated resource planning effort. These estimates are revised periodically to reflect changes in economic conditions and other factors considered in their determination. Substantial commitments have been incurred for these projects. Approximately \$2.7 billion in long-term commitments, ranging in terms of up to nine years, have been entered into for the purchase of coal.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Nuclear insurance

The Price-Anderson Act sets forth an indemnification and limitation of liability plan for the U.S. nuclear industry. All Nuclear Regulatory Commission (NRC) licensees, including TVA, maintain nuclear liability insurance in the amount of \$200 million for each plant with an operating license. The second level of financial protection required is the industry's retrospective assessment plan, using deferred premium charges. The maximum amount of the deferred premium for each nuclear incident is approximately \$79 million per reactor, but not more than \$10 million per reactor may be charged in any one year for each incident. TVA could be required to pay a maximum of \$396 million per nuclear incident on the basis of its five licensed units but it would have to pay no more than \$50 million per incident in any one year. Some of the amounts include a 5 percent surcharge if additional funds are needed to satisfy public liability claims and legal costs and are subject to adjustment for inflation.

In accordance with NRC regulations, TVA carries, at each licensed nuclear plant, property and decontamination insurance of \$1.06 billion for the cost of stabilizing or shutting down a reactor after an accident. Some of this insurance may require the payment of retrospective premiums of up to a maximum of approximately \$30 million.

Acid rain legislation

The Clean Air Act Amendments of 1990 will result in substantial expenditures for the reduction of sulfur dioxide, nitrogen oxide, and possible toxic emissions at several of TVA's coal-fired generating plants. TVA's present compliance strategy to reduce sulfur dioxide includes adding scrubbers at three fossil plants and the use of low-sulfur coal at seven fossil plants. During 1995, TVA completed the addition of scrubbers at one of three targeted plants at a cost of \$638 million. Additionally during 1995, TVA effected low-sulfur fuel switches at two of the seven targeted plants. TVA will achieve nitrogen oxide emission reductions required before January 1, 1996, as a result of the installation of low-nitrogen oxide burners at 13 of its 19 units. Annual operating and fuel expenses (excluding capital recovery) could increase \$30 to \$70 million over current fossil operating expenses for the years 1996 through 1999. Phase 2 requirements become effective in the year 2000. The cost of compliance cannot reasonably be determined at this time due to the uncertainties surrounding final Environmental Protection Agency (EPA) regulations, resultant compliance strategy, potential for development of new emission control technologies, and future amendments to the legislation. Requirements for toxic emissions have not been determined by the EPA.

Litigation

TVA is a party to various civil lawsuits and claims that have arisen in the ordinary course of its business. Although the outcome of pending litigation cannot be predicted with any certainty, it is the opinion of TVA counsel that the ultimate outcome should not have a material adverse effect on TVA's financial position or results of operations.

11. NONPOWER PROGRAMS

TVA's nonpower programs are charged with the delivery of various public services. These public services include managing the Tennessee Valley's navigable channels, providing flood control, overseeing certain recreation facilities, and generating general business development. The nonpower programs also serve the Tennessee Valley through the general stewardship of land, water, and wildlife resources. Benefits attributable to these efforts include a potable water supply, water pollution prevention, aquatic habitat protection, forest management, and shoreline protection. TVA's nonpower programs also conduct certain research and development activities in pollution prevention and remediation.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Funding for the nonpower programs is primarily provided through federal appropriations. During 1995 and 1994, the nonpower programs received appropriations of \$139 million and \$140 million respectively. Certain nonpower program activities are also funded by user fees and outside service revenues.

During 1995, the nonpower programs had net expense of \$182 million, which included a \$69 million charge for the write-off of the Columbia Dam and Reservoir project. The Columbia Dam and Reservoir, a multipurpose project financed by congressional appropriations, was suspended in prior years due to budget restrictions and environmental concerns. During 1995, TVA determined that the Columbia Dam would not be completed, and accordingly the project was written off.

Completed plant — Nonpower programs

Completed plant stated at gross consists of the following at September 30:

	1995			1994		
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>
	(Millions)					
NONPOWER PROGRAMS						
Hydro dams	\$ 914	\$232	\$682	\$ 913	\$ 221	\$ 692
Other	<u>162</u>	<u>58</u>	<u>104</u>	<u>232</u>	<u>56</u>	<u>176</u>
Total nonpower	<u>\$1,076</u>	<u>\$290</u>	<u>\$786</u>	<u>\$1,145</u>	<u>\$ 277</u>	<u>\$ 868</u>

Appropriation Investment — Nonpower programs

Changes in the appropriation investment during the fiscal years ended September 30:

	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(Millions)		
NONPOWER PROGRAMS			
Congressional appropriations	\$4,086	\$3,947	\$3,806
Transfers of property from other federal agencies	41	41	41
Repayments to general fund of the U.S. Treasury	<u>(42)</u>	<u>(42)</u>	<u>(42)</u>
Net appropriation investment	<u>\$4,085</u>	<u>\$3,946</u>	<u>\$3,805</u>

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of the Tennessee Valley Authority

We have audited the accompanying balance sheets (power program and all programs) of the Tennessee Valley Authority as of September 30, 1995 and 1994, and the related statements of income and retained earnings (power program), net expense and accumulated net expense (nonpower programs) and cash flows (power programs and all programs) for each of the three years in the period ended September 30, 1995. These financial statements are the responsibility of the Tennessee Valley Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principle used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 2 to the financial statements, the Tennessee Valley Authority has announced that it will not, by itself, complete certain deferred projects as nuclear units. Consideration is being given to converting these units to another fuel source or entering into arrangements with third parties to complete as nuclear units.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the power program and all programs of the Tennessee Valley Authority as of September 30, 1995 and 1994, and the results of operations of the power program and nonpower programs and cash flows of the power program and all programs for each of the three years in the period ended September 30, 1995, in conformity with generally accepted accounting principles.

As discussed in note 9 to the financial statements, in 1995 the Tennessee Valley Authority adopted Statement of Financial Accounting Standard No. 112. "Employers Accounting for Postemployment Benefits."

In accordance with *Government Auditing Standards*, we have also issued a report dated November 16, 1995, on our consideration of the Tennessee Valley Authority's internal control structure and a report dated November 16, 1995, on its compliance with laws and regulations.

Coopers & Lybrand L.L.P.
Knoxville, Tennessee
November 16, 1995

REPORT OF MANAGEMENT

Management is responsible for the preparation, integrity, and objectivity of the financial statements of the Tennessee Valley Authority as well as all other information contained in the annual report. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained in the annual report is consistent with that in the financial statements.

The Tennessee Valley Authority maintains an adequate system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with generally accepted accounting principles, and that the assets of the corporation are properly safeguarded. The system of internal controls is documented, evaluated, and tested on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such a system should not exceed the benefits derived. No material internal control weaknesses have been reported to management.

Coopers & Lybrand was engaged to audit the financial statements of the Tennessee Valley Authority and issue reports thereon. Their audits were conducted in accordance with generally accepted auditing standards. Such standards require a review of internal controls, examination of selected transactions and other procedures sufficient to provide reasonable assurance that the financial statements neither are misleading nor contain material errors. The Report of Independent Accountants does not limit the responsibility of management for information contained in the financial statements and elsewhere in the annual report.

David N. Smith
Chief Financial Officer

COMPARATIVE FIVE-YEAR DATA

Statistical and Financial Summaries

	For the years ended September 30,				
	1995	1994	1993	1992	1991
Sales (millions of kilowatt-hours)					
Municipalities and cooperatives	110,245	108,073	105,566	98,505	97,299
Federal agencies	7,226	4,407	2,382	2,204	2,148
Industries directly served	16,684	15,792	16,196	16,576	17,422
Electric utilities	—	—	—	—	48
Total sales	<u>134,155</u>	<u>128,272</u>	<u>124,144</u>	<u>117,285</u>	<u>116,917</u>
Operating revenues (millions of dollars)					
Electric					
Municipalities and cooperatives	\$ 4,654	\$ 4,582	\$ 4,479	\$ 4,266	\$ 4,272
Federal agencies	179	296	254	255	257
Industries directly served	460	452	472	472	531
Electric utilities	—	—	—	1	8
Other	82	71	71	71	68
Total revenues	<u>\$ 5,375</u>	<u>\$ 5,401</u>	<u>\$ 5,276</u>	<u>\$ 5,065</u>	<u>\$ 5,136</u>
Revenue per kilowatt-hour (mills) (a)	<u>39.4</u>	<u>40.3</u>	<u>40.6</u>	<u>41.2</u>	<u>42.0</u>
Winter net dependable generating capacity (megawatts)					
Hydro(b)	5,225	5,242	4,885	4,885	4,885
Coal	15,032	15,032	15,088	15,088	15,088
Nuclear units in service	3,342	3,342	3,365	3,361	3,361
Combustion turbine	2,232	2,264	2,284	2,284	2,284
Total capacity	<u>25,831</u>	<u>25,880</u>	<u>25,622</u>	<u>25,618</u>	<u>25,618</u>
System peak loan (megawatts) — summer	25,496	23,398	23,878	21,980	22,081
System peak load (megawatts) — winter	24,676	24,723	21,666	21,974	20,752
Percent gross generation					
Coal	71%	72%	77%	70%	70%
Hydro	12%	14%	13%	12%	14%
Nuclear	17%	14%	10%	18%	16%
Fuel cost per kilowatt-hour (mills)					
Coal	12.6	13.4	12.7	13.3	13.5
Nuclear(c)	6.1	11.0	10.9	11.0	10.2
Aggregate fuel cost per kwh net thermal generation . . .	11.4	13.1	12.5	12.9	12.9
Fuel data					
Net thermal generation (millions of kilowatt-hours) . . .	118,097	110,643	109,968	105,577	98,153
Billion Btu	1,197,295	1,120,868	1,105,395	1,069,725	998,934
Fuel expense (millions)	\$ 1,348	\$ 1,450	\$ 1,375	\$ 1,360	\$ 1,263
Cost per million Btu (cents)	112.61	129.40	124.42	127.16	126.48
Net heat rate, fossil only	<u>10,138</u>	<u>10,131</u>	<u>10,052</u>	<u>10,132</u>	<u>10,177</u>

(a) Excludes Department of Energy settlement payment of \$160 million for the years 1991-1994.

(b) Includes 405 megawatts of dependable capacity from the Corps of Engineers projects on the Cumberland River System.

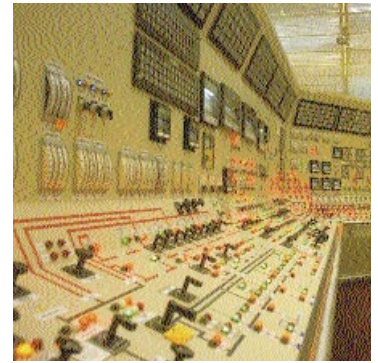
(c) TVA changed its method of expensing the interest component of nuclear fuel expense in 1995 (see note 1).



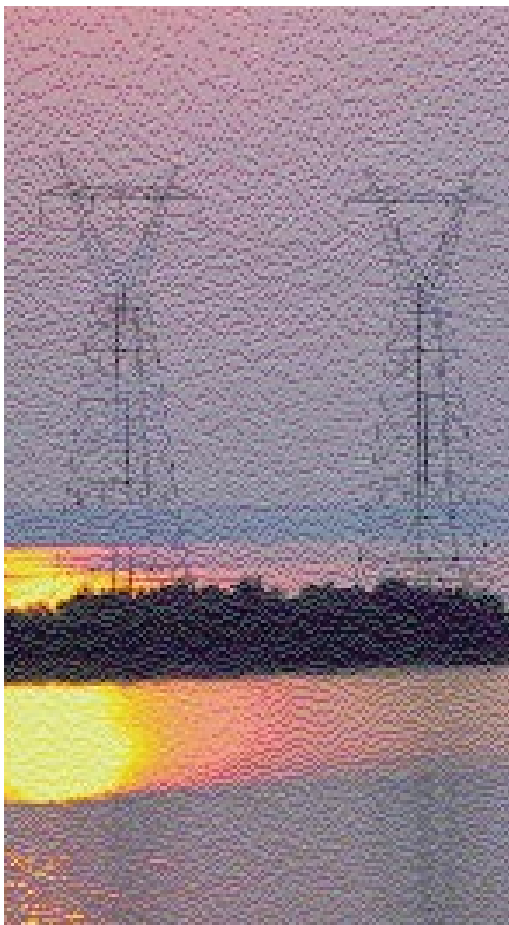
To be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs.



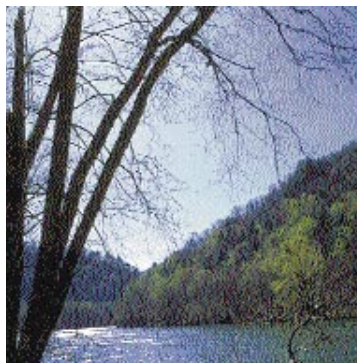
▲ *TVA's power system is one of the largest in the United States in both generating capacity and energy production.*



▲ *TVA's electric generation facilities are state of the art, including computer controlled production.*



▲ *TVA's 16,800-mile system of transmission lines through seven states serves as a vital part of the United States energy infrastructure.*



▲ *TVA is environmentally sensitive in the management of the thousands of acres it is responsible for along the Tennessee River system.*



▲ *TVA manages over 600 miles of the Tennessee River system for flood control, navigation, power production, and recreation.*



▲ *TVA, in alliances with others, acts as a national laboratory for electric technology advancements.*

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